

The Commonwealth of Massachusetts, Auditor's dep

DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

FOR THE

FISCAL YEAR ENDING JUNE 30, 1951



THOMAS J. BUCKLEY
STATE AUDITOR

MASS OFFICIALS

STATE LEGISLATURE OF MASSACHUSETTS

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STATE HOUSE, BOSTON

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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

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I have the honor to submit the Annual Report of the Department of the Auditor for the fiscal year, July 1, 1950 to June 30, 1951.

Section 12 of Chapter 11 of the General Laws defines the duties of the Department of the State Auditor.

"SECTION 12. The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, including those of the income tax division of the department of corporations and taxation, and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit. The accounts of the last named department shall be subject at any time to such examination as the governor and council or the general court may order. Said department shall comply with any written regulations, consistent with law, relative to its duties made by the governor and council. This section shall not apply to the accounts of state officers which the director of accounts of the department of corporations and taxation is required by law to examine. The department of the state auditor shall keep no books or records except records of audits made by it, and its annual report shall relate only to such audits."

All requirements of the law relating to the duties and functions of the State Auditor have been carefully complied with for the fiscal year ended June 30, 1951.

Personnel: As of June 30, 1951, the permanent Civil Service staff of this office included nine World War I veterans, fifteen World War II veterans and ten non-veterans.

During the year Mr. T. Frank McDonald of Clinton was appointed Second Deputy Auditor to replace Mr. Leo T. Murphy of Lowell who died on April 29, 1951.

Mr. Peter A. Gavrilles of Roxbury was promoted to Semi-Senior Accountant as a result of competitive Civil Service examination to replace Mr. Ernest W. Towne of Quincy who had retired.

Mr. John P. Harrington of Springfield, Senior Accountant, resigned to accept another position in the service of the Commonwealth. A competitive promotional examination has been ordered to fill this vacancy.

Mrs. Eileen P. Mann of Jamaica Plain resigned from the service of the Commonwealth.

Miss Svea M. Pearson of Belmont retired on July 17, 1951 after more than forty years of service with the Commonwealth.

The following Civil Service replacements were made during the year:

Mrs. Rose A. Chester of Belmont to Junior Clerk-Typist
 Mrs. Catherine I. Doyle of Jamaica Plain to Junior Clerk-Typist
 Mr. Charles Chiarenza of Mattapan to Junior Accountant
 Mr. John P. Johnson of Brookline to Junior Accountant
 Mr. James T. O'Donnell of Arlington to Junior Accountant
 Mr. James J. O'Neill of Dorchester to Junior Accountant

New Audits: During the fiscal year, the first audit of the following agencies was completed:

Civil Defense Agency
 Commission on Alcoholism
 Commissioners to Revise, Recodify, Consolidate and Arrange the General Laws
 Special Commission on the Structure of the State Government
 Board of Bar Examiners
 Reporter of Decisions
 State Board of Probation

In addition to the above, two special audits were required during the fiscal year, one of the Department of Public Works to determine for the Budget Commissioner the total of the Federal Aid Accounts Receivable as at June 30, 1950, the other, a special audit of the North Adams Teachers College became necessary as a result of defalcations on the part of the Principal Clerk at the College who had disappeared.

General: Individual copies of audit reports for all State activities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the Chairman of the Commission on Administration and Finance, the Comptroller and the State Librarian. Copies also have been forwarded to the administrative head of each institution or agency concerned, the chaplains, medical boards and trustees of the institutions, and the commissioner of each department.

Summary of Audits Completed: The following listed audits of State departments and institutions have been made since my last report to the legislature:

SCHEDULE OF REGULAR AUDITS COMPLETED		FISCAL YEAR 1950-1951	
Department or Institution	From	To	Report No.
GOVERNOR AND COUNCIL:			
Aeronautics Commission	June 20, 1950	June 6, 1951	51-137
Alcoholic Beverages Control Commission	June 14, 1950	June 5, 1951	51-132
Armory Commission	July 17, 1949	Sept. 6, 1950	51-16
Art Commission for the Commonwealth	Feb. 7, 1950	May 9, 1951	51-97
Ballot Law Commission	Feb. 7, 1950	May 8, 1951	51-96
Civil Defense Agency	July 20, 1950	Mar. 19, 1951	51-82
Commission Against Discrimination	Nov. 7, 1949	Apr. 27, 1951	51-93
Commission on Administration and Finance	July 1, 1949	June 30, 1950	51-28
Commission on Alcoholism	July 1, 1949	Mar. 8, 1951	51-77
Commission on Uniform State Laws	Feb. 7, 1950	May 8, 1951	51-95
Commissioner of Veterans' Services	Dec. 7, 1949	Dec. 14, 1950	51-56
Commissioners to Revise, Recodify, Consolidate and Arrange the General Laws	Aug. 18, 1948	Mar. 26, 1951	51-85
Military Division of the Executive Department	July 17, 1949	Sept. 6, 1950	51-17
Military Reservation Commission	July 17, 1949	Sept. 6, 1950	51-15
Milk Regulation Board	Nov. 1, 1949	Nov. 6, 1950	51-34
Outdoor Advertising Authority	Feb. 13, 1950	Jan. 8, 1951	51-59
Port of Boston Authority	Jan. 16, 1950	Aug. 14, 1950	51-10
Public Bequest Commission	Feb. 7, 1950	May 9, 1951	51-98
Soldiers' Home in Chelsea	July 11, 1949	Sept. 14, 1950	51-22
Soldiers' Home in Holyoke	June 13, 1950	June 25, 1951	51-129
State Housing Board	July 11, 1949	July 24, 1950	51-8
State Library	Feb. 8, 1950	May 11, 1951	51-99
State Planning Board	Oct. 11, 1949	Mar. 14, 1951	51-76
State Racing Commission	Oct. 31, 1949	Nov. 9, 1950	51-26
State Superintendent of Buildings	July 1, 1949	Nov. 6, 1950	51-40
SECRETARY OF THE COMMONWEALTH:			
General Department	Sept. 15, 1949	Sept. 18, 1950	51-18
Commission on Interstate Co-operation	Oct. 11, 1949	Nov. 2, 1950	51-58
TREASURER AND RECEIVER-GENERAL:			
General Department	Jan. 4, 1950	Dec. 4, 1950	51-48
Emergency Finance Board	July 1, 1949	June 30, 1950	51-91
Public Buildings Commission	Sept. 19, 1949	Oct. 2, 1950	51-31
State Board of Retirement	Jan. 1, 1950	Dec. 31, 1950	51-107
ATTORNEY-GENERAL			
	Nov. 2, 1949	Nov. 15, 1950	51-44
DEPARTMENT OF AGRICULTURE:			
General Department	Nov. 1, 1949	Oct. 9, 1950	51-36
Division of Livestock Disease Control	Nov. 1, 1949	Nov. 6, 1950	51-33
Division of Milk Control	Nov. 1, 1949	Oct. 9, 1950	51-35
DEPARTMENT OF BANKING AND INSURANCE:			
Division of Banks	Dec. 6, 1949	Nov. 29, 1950	51-51
Division of Insurance	May 3, 1950	June 5, 1951	51-130
Division of Savings Bank Life Insurance	Sept. 28, 1949	Nov. 27, 1950	51-50
Supervisor of Loan Agencies	Feb. 6, 1950	May 1, 1951	51-94
DEPARTMENT OF CIVIL SERVICE AND REGISTRATION:			
General Department	Feb. 13, 1950	Feb. 26, 1951	51-73
Architects, Board of Registration of	Sept. 19, 1949	Sept. 25, 1950	51-24
Barbers, Board of Registration of	Mar. 8, 1950	Apr. 13, 1951	51-103
Certified Public Accountants, Board of Registration of	Mar. 28, 1950	May 28, 1951	51-125
Chiropody, Board of Registration in	Mar. 30, 1950	May 17, 1951	51-119
Dental Examiners, Board of Registration of	May 2, 1950	June 15, 1951	51-134
Electricians, State Examiners of	Apr. 25, 1950	May 21, 1951	51-120
Embalming and Funeral Directing, Board of Registration in	May 25, 1950	June 7, 1951	51-135
Hairdressers, Board of Registration of	Sept. 23, 1949	Oct. 3, 1950	51-32
Medicine and Nursing, Board of Registration in	Oct. 27, 1949	Oct. 17, 1950	51-38

Department or Institution	From	To	Report No.
DEPARTMENT OF CIVIL SERVICE AND REGISTRATION (Continued):			
Optometry, Board of Registration in	Apr. 20, 1950	Apr. 4, 1951	51-88
Pharmacy, Board of Registration in	Apr. 20, 1950	May 1, 1951	51-110
Plumbers, Board of State Examiners of	June 21, 1950	June 11, 1951	51-136
Professional Engineers and Land Surveyors, Board of Registration of	Nov. 9, 1949	Apr. 4, 1951	51-100
Veterinary Medicine, Board of Registration in	Apr. 24, 1950	June 11, 1951	51-133
DEPARTMENT OF CONSERVATION:			
General Department	May 8, 1950	Apr. 12, 1951	51-102
Fisheries and Game, Division of	Apr. 25, 1950	Apr. 12, 1951	51-101
DEPARTMENT OF CORPORATIONS AND TAXATION:			
General Department	Dec. 1, 1948	June 30, 1950	51-2
Appellate Tax Board	Mar. 8, 1950	Jan. 31, 1951	51-65
Division of Accounts	Apr. 12, 1950	Apr. 25, 1951	51-109
DEPARTMENT OF CORRECTION:			
General Department	Mar. 29, 1950	Mar. 26, 1951	51-84
Reformatory at Concord	Nov. 9, 1949	Dec. 12, 1950	51-55
Reformatory for Women	May 10, 1950	Apr. 16, 1951	51-105
State Farm at Bridgewater	July 20, 1949	July 10, 1950	51-3
State Prison	Apr. 3, 1950	Apr. 9, 1951	51-90
State Prison Colony	Mar. 21, 1950	May 3, 1951	51-111
DEPARTMENT OF EDUCATION:			
General Department	May 22, 1950	May 22, 1951	51-122
Bradford Durfee Technical Institute	Jan. 31, 1950	Mar. 19, 1951	51-81
Division of the Blind	July 12, 1949	Oct. 2, 1950	51-27
Lowell Textile Institute	Aug. 31, 1949	Aug. 28, 1950	51-13
Maritime Academy	June 7, 1950	June 4, 1951	51-128
New Bedford Textile Institute	Apr. 1, 1950	May 14, 1951	51-115
School Buildings Assistance Commission	May 1, 1950	Apr. 23, 1951	51-106
School of Art	June 13, 1950	June 4, 1951	51-131
State Teachers College at Bridgewater	July 7, 1949	Aug. 16, 1950	51-11
State Teachers College at Fitchburg	Jan. 16, 1950	June 12, 1951	51-127
State Teachers College at Framingham	May 1, 1950	May 14, 1951	51-113
State Teachers College at Lowell	Oct. 11, 1949	Nov. 27, 1950	51-49
State Teachers College at North Adams	June 19, 1950	Apr. 16, 1951	51-89
Cash Examination	July 1, 1950	Oct. 27, 1950	Special
State Teachers College at Salem	Dec. 1, 1949	Jan. 16, 1951	51-63
State Teachers College at Westfield	June 1, 1950	May 15, 1951	51-116
State Teachers College at Worcester	Jan. 3, 1950	Nov. 22, 1950	51-45
Teachers' Retirement Board	Jan. 1, 1950	Dec. 31, 1950	51-69
University of Massachusetts at Amherst	Oct. 31, 1949	Oct. 31, 1950	51-42
University of Massachusetts at Fort Devens	Sept. 30, 1949	Oct. 9, 1950	51-29
INDUSTRIAL ACCIDENT BOARD			
	May 15, 1950	May 14, 1951	51-114
DEPARTMENT OF LABOR AND INDUSTRIES:			
General Department	Feb. 27, 1950	Dec. 11, 1950	51-54
Division of Employment Security	May 29, 1950	May 21, 1951	51-121
Labor Relations Commission	Mar. 27, 1950	May 22, 1951	51-123
LEGISLATURE:			
Sergeant-at-Arms	Oct. 19, 1949	Apr. 11, 1951	51-92
Special Commission on the Structure of the State Government	Jan. 17, 1950	Mar. 30, 1951	51-86
DEPARTMENT OF MENTAL HEALTH:			
General Department	July 7, 1949	July 13, 1950	51-5
Belchertown State School	Apr. 3, 1950	Feb. 26, 1951	51-72
Boston Psychopathic Hospital	Mar. 9, 1950	Feb. 1, 1951	51-67
Boston State Hospital	Mar. 7, 1950	Jan. 16, 1951	51-61
Danvers State Hospital	Dec. 6, 1949	Dec. 11, 1950	51-53
Foxborough State Hospital	Sept. 19, 1949	Sept. 20, 1950	51-25
Gardner State Hospital	Oct. 11, 1949	Aug. 1, 1950	51-9
Grafton State Hospital	Aug. 15, 1949	Oct. 2, 1950	51-30
Medfield State Hospital	Apr. 10, 1950	Mar. 21, 1951	51-83

Department or Institution	From	To	Report No.
DEPARTMENT OF MENTAL HEALTH (Continued):			
Metropolitan State Hospital	May 15, 1950	May 31, 1951	51-126
Monson State Hospital	Aug. 1, 1949	Sept. 1, 1950	51-20
Myles Standish State School	Nov. 4, 1949	Oct. 23, 1950	51-39
Northampton State Hospital	Sept. 1, 1949	July 10, 1950	51-4
Taunton State Hospital	Dec. 15, 1949	Dec. 21, 1950	51-57
Walter E. Fernald State School	Oct. 24, 1949	Oct. 16, 1950	51-37
Westborough State Hospital	Apr. 3, 1950	Mar. 1, 1951	51-74
Worcester State Hospital	Feb. 6, 1950	Dec. 4, 1950	51-46
Wrentham State School	Feb. 1, 1950	Feb. 8, 1951	51-68
METROPOLITAN DISTRICT COMMISSION	July 5, 1949	Sept. 5, 1950	51-14
DEPARTMENT OF PUBLIC HEALTH:			
General Department	Oct. 3, 1949	Sept. 11, 1950	51-21
Lakeville State Sanatorium	Oct. 3, 1949	Sept. 15, 1950	51-23
North Reading State Sanatorium	Nov. 1, 1949	Nov. 13, 1950	51-43
Pondville State Hospital	Mar. 14, 1950	Feb. 13, 1951	51-71
Rutland State Sanatorium	Dec. 1, 1949	Apr. 16, 1951	51-104
Westfield State Sanatorium	May 1, 1950	Apr. 24, 1951	51-108
DEPARTMENT OF PUBLIC SAFETY	Dec. 9, 1949	Nov. 29, 1950	51-47
DEPARTMENT OF PUBLIC UTILITIES	Mar. 8, 1950	Mar. 12, 1951	51-80
DEPARTMENT OF PUBLIC WELFARE:			
General Department	Mar. 2, 1950	Jan. 25, 1951	51-66
Massachusetts Hospital School	Jan. 23, 1950	Jan. 22, 1951	51-64
Tewksbury State Hospital and Infirmary	Dec. 12, 1949	Dec. 11, 1950	51-52
DEPARTMENT OF PUBLIC WORKS:			
General Department	May 12, 1950	Apr. 3, 1951	51-87
Special - Federal Aid	July 1, 1944	June 30, 1950	51-12
Registry of Motor Vehicles	July 5, 1949	July 5, 1950	51-1
State Airport Management Board	Mar. 16, 1950	Feb. 12, 1951	51-70
SUPREME JUDICIAL COURT:			
Board of Bar Examiners	July 1, 1949	June 30, 1950	51-79
Clerk for the Commonwealth	Mar. 22, 1950	May 15, 1951	51-117
Reporter of Decisions	July 1, 1949	May 17, 1951	51-118
State Board of Probation	July 1, 1949	Mar. 6, 1951	51-78
YOUTH SERVICE BOARD:			
General Department	Nov. 17, 1949	Nov. 6, 1950	51-41
Industrial School for Boys	May 8, 1950	May 25, 1951	51-124
Industrial School for Girls	June 1, 1950	May 9, 1951	51-112
Lyman School for Boys	July 18, 1949	July 19, 1950	51-7

Comments: The following comments, exceptions and recommendations have appeared in audit reports issued during the 1950-1951 fiscal year, and are listed herein in numerical sequence. In order to locate comments relating to a particular department, consult the Schedule of Audits Completed which will indicate the number of that particular audit.

REGISTRY OF MOTOR VEHICLES

REPORT No. 51-1

Refunds of Fees Account of Applications for Licenses to Operate Motor Vehicles:
Previous audit reports have stated :

"At present applicants file applications, together with the fee of \$6.00, with the examiner at the examination point. The \$6.00 covers the examination fee of \$2.00 and the license fee of \$4.00 covering two years. Should the applicant pass the examination, he receives a temporary license and a permanent license is mailed to him later. If the applicant fails in his examination, the license fee of \$4.00 is refunded to him in cash by the examiner. The same arrangement applies in re-examinations, except that the re-examination fee is \$1.00, so that the applicant deposits \$5.00 instead of \$6.00. It is again recommended that the Comptroller's Bureau review the routine of handling fees and provide some method that will eliminate the present practice of re-funds being made by the examiners."

No action has been taken on this recommendation, but it was understood that a new position has been established entitled, "Supervisor of Special Services-Driver Licenses" and that the duties will be to standardize methods and procedures at all of the examination places.

Deposit in Lieu of Insurance: Chapter 346 of the Acts of 1925 provided that in lieu of taking compulsory liability insurance an applicant for registration of a motor vehicle could deposit with the Department of Public Works cash or collateral with a market value of not less than \$5,000.00. The records of such deposits were kept in the Division of Highways. Chapter 571 of the Acts of 1949 changed this and provided that the deposit of \$5,000.00 is to be made with the State Treasurer. The only record the Registry keeps of such transaction is the certificate issued by State Treasurer to the applicant, which is attached to application for registration of a motor vehicle. It is suggested that a register be kept showing such deposits.

Cash Overages and Shortages: The sum of \$2,000.00 is advanced to the cashier from the Chief Accountant's advance to clear overages and shortages in income at the Boston office and Branch offices. On July 5, 1950, there was being carried in this account a net shortage of \$834.00, an analysis of which follows:

Status of Shortages Paid from Cashier's \$2,000.00 Advance and Overages Paid into the Advance as of July 5, 1950

Shortages Paid from Advance:		
Branch Offices	\$1,377 68	
Bank Deposit Shortage (Boston)	3 00	
Boston Office	350 41	
Counterfeit Money Made Good	41 50	
Bad Check	1 00	
Total Shortages Cleared		\$1,773 59
Less:		
Overages Paid into Advance:		
From Branch Offices	\$361 30	
From Over and Short Account	575 29	
From Mail Room	3 00	
Total Overages		939 59
Net Shortage (Should be Appropriated)		<u>\$ 834 00</u>

Reconciliation

Cash on Hand July 5, 1950	\$1,041 00
Advances Paid to Tellers for Petty Cash	125 00
Net Shortages	834 00
	<u>\$2,000 00</u>

This account has not been cleared by appropriation since 1939 and the above shortages and overages represent an accumulation of over eleven years, during which time the receipt for Registry Income amounted to close to \$95,000,000.00 including the Boston office. Receipts of Boston alone amounted to approximately \$38,000,000.00. It is recommended that the necessary steps be taken to clear these shortages.

Split Cash Sheets: All fees collected are recorded daily on serially numbered cash sheets twenty-five numbers to a sheet. The serial numbers and the calendar year are printed on all cash sheets. These serial numbers are assigned to the various branches each year and thus provide the bookkeeping division with a control over income.

It was understood that at the present time sixteen branch offices employed the printed serially numbered sheets all the time, whereas the other five branch offices recorded the serial numbers manually on split sheets only. The term "split sheet" is applied to describe cash sheets not fully used as the total number of fees collected for any business day rarely end in a multiple of twenty-five. The five offices use the entire printed cash sheet to report fees numbering less than twenty-five and then manually number a blank cash sheet for the next day's business for the unused serial numbers appearing on the printed cash sheet for the previous business day. However, the remaining fourteen offices cut the cash sheet at the end of each week immediately at the point that the last fee is recorded and send in only the portion of the cash sheet having fees recorded. The employment of blank cash sheets defeats the purpose of the printed serially numbered cash sheets which is to furnish a control at all times. A uniform system throughout all the branches should be put into effect.

Reconciliation of Cash at Branch Offices: The rules and regulations provide that the manager of each branch office is to personally balance the cash twice a month and file a report of such cash reconciliation with the Chief Accountant, however, this rule has in many cases not been adhered to. Apparently it has not been the practice to have a representative of the Boston office visit the branch offices and make an independent reconciliation of the cash. It is suggested that this be done periodically.

Cashier's Office - Rebate and Refund Advance Fund: The previous audit report stated:

"It is suggested that the Comptroller's Bureau should be contacted relative to the installation of a cash book in which to record the receipts and disbursements of the fund.

"This has not yet been done and the suggestion is, therefore, repeated. About \$150,000.00 passed through this account during the previous calendar year, and it would appear that the amount is sufficiently large to warrant the use of a cash book in which to record advances received and total disbursements by schedule number, with monthly balancing. Inclusive check numbers should be entered as applying to each respective schedule and individual receipts or disbursements should also be entered. Such a cash book would bring all activities of this fund into a single record."

This suggestion not having been adopted, attention is again called to it.

1949 Number Plates Continued in Use for 1950: Section 2 of Chapter 90 of the General Laws provides that the Registrar shall furnish two number plates to each person whose motor vehicle is registered under said Chapter 90. Chapter 470 of the Acts of 1949 amended Section 2 of Chapter 90 of the General Laws and referring to number plates reads in part as follows:

"The number plates so furnished shall, except as provided by section nine, and except in case the registrar for any valid reason extends

the time, be valid only for the year for which they are issued. If the registrar extends the time he may make rules and regulations requiring the display of visible evidence upon every motor vehicle that it has been registered and that the plates in use thereon are valid. Any plate becoming illegible because of construction defects shall be replaced by the registrar without cost."

Acting under this Chapter, the Registrar authorized the use of the 1949 number plates for the year of 1950 and provided a so-called sticker to be pasted on the windshield of the motor vehicle. Prior to the 1950 year there was one set of cash sheets for passenger cars and one set for trucks, the cash sheets contained 25 lines, each serially numbered and the number appearing against the name of the person registering the motor vehicle was the same as the number plate furnished him. For the 1950 year the serial numbers printed on the cash sheets are "Financial Transaction" numbers and these numbers correspond with the serial numbers printed on the "Stickers" which are furnished persons registering a motor vehicle in 1950 that had been registered in 1949. A person registering a motor vehicle for the first time in 1950 received two number plates and also a "sticker".

The applications for registration of motor vehicles are filed in numerical order by plate numbers and the entries on the cash sheets being under "Financial Transaction" numbers makes the auditing of these plates difficult.

Theft at the Malden Office of the Registry of Motor Vehicles: The Malden office of the Registry of Motor Vehicles located at 122-124 Exchange Street, Malden, was broken into sometime between 12:20 P.M. on December 26, and 8:20 A.M. December 27, 1949. In addition to certain rubber stamps, the following items were stolen:

- 11 Bates numbering machines
- 21 Sets of passenger plates
- 2,000 Numbered registration stickers (929,001-931,000)
- 1,000 (Approximately) unnumbered registration stickers
- 300 Official 1949 inspection stickers

All items stolen were recovered in February 1950 and are being retained by the Malden Police Department for evidence when and if an arrest is made. It was understood that the person alleged to have committed the theft has been indicted by the Grand Jury.

Stock Room Receiving Slips Not Signed: An examination of the receiving slips sent to the bookkeeping section to be verified against the vendor's invoices as to the quantities of goods received by the Registry showed that approximately 75% of the receiving slips were not signed by the receiving clerks. It is recommended that the Section head responsible for the stock room of the Registry examine all receiving slips for authorized signatures before they are sent to the bookkeeping section.

Spending Agency's Copy of Invoice Incomplete: An examination of the vendor's invoices for the audit period showed that only the Comptroller's copy of the invoices are being executed and signed to indicate that the quantities have been checked to the receiving reports, unit prices and terms to purchase orders, etc. and extensions, footings and discounts have been verified. The Accounting Manual issued by the Comptroller's Bureau to all departments indicates that both the Comptroller's copy and the spending agency's copy of the vendor's invoice be audited and signed before they are submitted to Comptroller for payment.

DEPARTMENT OF CORPORATIONS AND TAXATION

GENERAL DEPARTMENT

REPORT No. 51-2

Income Tax Assessments: Prior to the 1946 income tax assessment warrants were prepared in the Assessing Section of the Income Tax Division and sent to the Collector's Office, together with the individual taxpayers bills. The bills were entered on the ledger cards and then mailed by the Collector's Office. Beginning with the 1946 year, the preparation of warrants in the Assessing Section was discontinued and the assessments were established in the Collector's Office, (subject to verification) from the taxpayers return coupons in those cases where the taxpayer enclosed full or partial payment with the tax return.

Under the present arrangement, the coupons are processed for cost, are sorted, and then are sent to the nineteen ledger clerks, who list on warrants the amounts set up as assessments, which are subject to verification. These warrants are entered in so-called master books, and in subcontrol ledgers. In order to set up an approximate record of accounts receivable in the department financial report as of any June 30th, the income tax and corporation tax assessments are anticipated and the estimated figures are entered in the control ledgers as of June 30th. The figures are properly adjusted at the time of certification of the total assessments of the business corporation excise taxes in September of each year. At the time of the final establishment of the income tax assessment subject to verification, on September 1st of each year, these taxes are also properly adjusted. In cases where tax returns are received without remittances, the returns are segregated and sent to the assessing division, which subsequently sends assessment warrants on such cases to the Collector's Office, together with any additional assessments resulting from a review of the tax returns.

It was understood that the reason for the change in the system was occasioned by the inability of the Assessing Section to get the assessment warrants and the taxpayers bills to the Collector's office by September 1, the date the bills are apparently required to be mailed.

However, regardless of the reasons, it is stated that from an accounting point of view assessments should not be established in the Collector's Office.

Also under the present arrangement it is difficult, if not impossible, to get an independent verification of the assessments as a basis of audit.

Trial Balances of Accounts Receivable, November 30, 1949 - Income Taxes: It was noted that the balance in the control account, the subcontrol accounts and the 19 master books were in agreement, but of the 19 taxpayers ledgers, as of June 30, 1949, only three were in reconciliation with the master book, the condition of the other 16 being as follows:

1 Ledger	2 Tax Years Out of Balance
6 Ledgers	3 Tax Years Out of Balance
2 Ledgers	4 Tax Years Out of Balance
1 Ledger	5 Tax Years Out of Balance
4 Ledgers	6 Tax Years Out of Balance
1 Ledger	7 Tax Years Out of Balance
1 Ledger	8 Tax Years Out of Balance

Trial Balances of Accounts Receivable, - Corporation and Miscellaneous Taxes: It was noted that the balances in the control accounts for Domestic Corporation Taxes and Gasoline Taxes were not in agreement with the respective master books. In the case of Domestic Corporation Taxes, the trial balance book of the taxpayers ledger was not totaled for November 30, 1949. In the case of Foreign Corporation Taxes, the trial balance of the taxpayers ledger was out of balance with the master book for one tax year. The trial balances of the taxpayers ledgers for Gasoline, Inheritance and Estate Taxes were also out of balance with the respective master books.

From this it would appear that the accounts receivable ledgers are not in a satisfactory condition and it is suggested that necessary steps be taken to correct the situation.

Meals Tax Abatements: These abatements are granted by the Director of Meals Taxes and many of them result from additional taxes assessed following an audit of the accounts of the particular eating place. Apparently Chapter 64B of the Tercentenary Edition of the General Laws, which is the authorization for the meals tax is silent as to abatements, consequently it would seem that abatements should be sent to Appellate Tax Board for final approval.

Meals Tax Assessments Unpaid: The department records show a total of \$170,802.83 of meal tax assessments unpaid as of November 30, 1949. Verification notices were sent out on a test basis, and many were returned with notations indicating that they had gone out of business or were in bankruptcy, etc. It is suggested that if there has been a determination made that the accounts are impossible of collection, that steps be taken to dispose of the balances.

Accounts with the Attorney General for Collection: The Collector of Taxes in the Department now has authority, in all types of taxes except Inheritance Taxes, to issue demands and warrants for the collection of taxes, consequently the only types of taxes now with the Attorney General for collection are Inheritance Tax cases. On June 30, 1950,

there were 393 Inheritance Tax cases totaling \$107,842.68 with the Attorney General for collection which represent items billed from the year 1893 through the year 1945.

It was noted that additional cases have been turned over to the Attorney General for collection since the date of the last audit. A copy of a letter from the office of the Attorney General to the Commissioner of the Department of Corporations and Taxation, dated June 28, 1948, referred to a request from the Auditor's office to check a list of Inheritance Tax claims which had been sent to the Attorney General for collection. The letter indicated the status of the listed accounts to be as follows:

Uncollectible	205 accounts
Returned to the Department for further Information	115 "
Active	57 "
Not on Attorney General's records	16 "
	<u>393 accounts</u>

It is suggested that the Department contact the office of the Attorney General in order that an agreement may be reached as to the correct status of each account listed. It is also suggested that all other uncollectible Inheritance Tax claims be turned over to the Attorney General for collection.

It is suggested that the Attorney General be asked if it is not possible to clear at least some of these cases.

Annual Transfer of \$1,500,000.00 from Income Tax Collections to General Revenue: It was noted that beginning with the 1935 year and through the 1949 year the sum of \$1,500,000.00 of income tax collections were paid over to the State Treasurer as Public Service Tax receipts and credited to general revenue. This transfer of income tax collections to general revenue was made under the provisions of Chapters 307 and 357 of the Acts of 1933. The pertinent sections of said chapters read as follows:

Section 9 of Chapter 307 of the Acts of 1933 as amended by Section 1 of Chapter 285 of the Acts of 1943 reads:

"Section 9. Income received by any inhabitant of the Commonwealth during the years nineteen hundred and thirty-three, nineteen hundred and thirty-four and nineteen hundred and thirty-five from dividends on shares in all corporations, joint stock companies and banking associations, organized under the laws of this commonwealth or under the laws of any state or nation, except co-operative banks, building and loan associations and credit unions chartered by the commonwealth and except savings and loan associations under the supervision of the commissioner of banks, and income received by any inhabitant of the commonwealth during the years nineteen hundred and thirty-six, nineteen hundred and thirty-seven, nineteen hundred and thirty-eight, nineteen hundred and thirty-nine, nineteen hundred and forty, nineteen hundred and forty-one, nineteen hundred and forty-two, nineteen hundred and forty-three, nineteen hundred and forty-four and nineteen hundred and forty-five from such dividends, other than stock dividends paid in new stock of the company issuing the same, shall be taxed at the rate of six per cent per annum. Inhabitant of the commonwealth shall include (a) estates and fiduciaries specified in sections nine, ten, thirteen and fourteen of chapter sixty-two of the General Laws, (b) partnerships specified in section seventeen of said chapter sixty-two, and (c) partnerships, associations or trusts, the beneficial interest in which is represented by transferable shares, specified in paragraphs entitled, First, Second and Third of subsection (c) of section one of said chapter sixty-two. Except as otherwise provided in this section, the provisions of said chapter sixty-two shall apply to the taxation of income received by any such inhabitant during said years. Subsection (b) of section one of said chapter sixty-two shall not apply to income received during said years."

Section 4 of Chapter 357 of the Acts of 1933 reads, as follows:

"Section 4. Section eighteen of chapter fifty-eight of the General

Laws shall not apply to any taxes upon dividends made taxable by this act and not heretofore taxable under said chapter sixty-two, which taxes shall be retained by the commonwealth; but said section eighteen shall continue to apply to taxes upon dividends taxable under this act which have heretofore been taxable under said chapter sixty-two. Notwithstanding the provisions of section eleven of chapter three hundred and seven of the acts of the current year, the proceeds of all taxes collected by the commonwealth under section nine of said chapter on dividends on shares in all corporations and joint stock companies organized under the laws of any state or nation other than this commonwealth, except banks which are subject to taxation under section two of chapter sixty-three of the General Laws, which dividends were made taxable by said section nine and were not taxable prior to the effective date of said chapter three hundred and seven, shall be retained by the commonwealth."

Section 9 of Chapter 307 of the Acts of 1933 discontinued the income tax exemptions provided in the last clause of Section 1 (b) of Chapter 62 of the Tercentenary Edition of the General Laws, which reads in part as follows:

"... and except such foreign corporations as are subject to a tax upon their franchises payable to the commonwealth under section fifty-eight of chapter sixty-three."

It was understood that the amount of \$1,500,000.00 was based on the amount of taxes paid prior to the 1933 year by a certain foreign telephone corporation, whose dividends became taxable on the passage of Chapter 307 of the Acts of 1933, which act was passed after the foreign telephone company in question discontinued the payment of a franchise tax.

Cigarette Tax Division - Unpaid Renewal Fees, Vending Machine Plates: The previous audit report stated as follows:

"A reconciliation of the income from Vending Machine Plates with the cash collections from that source disclosed that two Vending Machine Operators failed to pay the renewal fees of \$176.00 due on a number of Vending Machines, apparently in their possession on July 1, 1948, the beginning of the renewal period, as follows:

	<u>Licensee No. 70</u>	<u>Licensee No. 73</u>
Vending Machine Plates in their possession, July 1, 1947	1,400	1,500
New Plates Purchased, July 1, 1947 to June 30, 1948	100	300
Plates Attached to Vending Machines, Purchased from other Vending Machine Operators, July 1, 1947 to June 30, 1948	<u>222</u>	<u>204</u>
	1,722	2,004
Vending Machines sold to other Vending Machine Operators, July 1, 1947 to June 30, 1948	<u>6</u>	<u>44</u>
	1,716	1,960
Add:		
New Plates Purchased, July 1948	<u>100</u>	<u>-</u>
Total Plates, Apparently in their Possession	1,816	1,960
Plates Sold per Cash Records	<u>1,700</u>	<u>1,900</u>
Unpaid Plates	<u>116*</u>	<u>60*</u>

* Plates \$1.00 each

"The rules and regulations of the Division required all Vending Machine Operators to file a Cigarette Vending Machine Location List

within two weeks of date of receipt of annual licenses, yet neither of the above licensees have ever failed the above required reports for the seven fiscal years beginning July 1, 1942 to July 1, 1948, thus making it impossible to determine the exact number of Vending Machines on Location on the date of audit or July 1, 1948.

"However, beginning with July 1, 1949, a monthly report will be required from all Vending Machine Operators, which will provide a control over vending Machines."

In this connection the director of the Cigarette Tax Division stated that licensees No. 70 and No. 73 did not owe the \$176.00 at the date of the last audit. He further indicated that the difference was due to plates that had been lost. In this connection monthly reports are now required of all vending machine operators.

On June 30, 1950, the office of the Cigarette Tax Division was visited for the purpose of balancing the cash in connection with this audit. The method in use for processing license applications, etc. and clearing the cash on hand is definitely in need of changing, and it is suggested that the Comptroller's Bureau be contacted relative to the installation of a proper system.

Cigarette Tax Division - Cash on Hand: On September 8, 1950, there were 612 license applications on hand with cash or checks attached, as follows:

<u>Age of Applications</u>		<u>No. of Applications</u>	<u>Cash on Hand</u>
June	1949	2	\$ 2 00
July	1949	3	3 00
August	1949	1	1 00
September	1949	1	1 00
December	1949	1	1 00
January	1950	3	3 00
April	1950	1	1 00
May	1950	3	3 00
June	1950	166	166 00
July	1950	208	208 00
August	1950	194	194 00
September	1950	29	29 00
		<u>612</u>	<u>\$612 00</u>

Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws requires all monies received on account of the Commonwealth to be paid daily into the Treasury, unless granted permission by the Commission on Administration and Finance and the State Treasurer to be paid weekly into the treasury.

Cigarette Excise Taxes - Post Dated Checks: The director of this section, in an effort to liquidate a certain large delinquent balance, had received from a tobacco dealer a number of post dated checks. As of July 31, 1950, twenty-two checks totaling \$17,061.00 were being held in the office. These checks are dated between August 3, 1950 and December 28, 1950 and will be deposited weekly.

Distributions of Corporation Tax Collections to Cities and Towns: Prior to the 1947 fiscal year, Corporation Tax Collections were distributed to cities and towns under the provisions of Section 20 of Chapter 58 of the Tercentenary Edition of the General Laws.

Beginning with the 1947 state fiscal year and continuing through the 1950 state fiscal year, the amount of corporation tax receipts to be distributed to the cities and towns was included in the annual appropriation act.

A statement showing the distribution of corporation tax receipts to the cities and towns for the period of July 1, 1949 through June 30, 1950 as follows:

Corporation Taxes - Agency Fund

July 1, 1949 through June 30, 1950

Balance July 1, 1949	\$17,654,613 86
Receipts for Period	35,934,356 58
	<u>\$53,588,970 54</u>
Less:	
Refunds	2,292,706 69
	<u>\$51,296,263 85</u>

Credits

Tax Receipts Distributed to Cities and Towns:			
July	1, 1949	\$ 4,700,000 00	
July	2, 1949	9,000,000 00	
November	2, 1949	17,141,163 65	
December	28, 1949	1,500,000 00	
April	12, 1950	9,006,291 88	
April	26, 1950	1,604,059 43	\$42,951,514 96
Tax Receipts Retained by the Commonwealth:			
November	2, 1949	\$ 2,500,026 42	
April	12, 1950	1,801,258 38	
May	4, 1950	300,000 00	
June	30, 1950	1,651,395 06	6,252,679 86
Balance June	30, 1950		<u>2,092,069 03</u>
			<u>\$51,296,263 85</u>

Distribution of Income Tax Collections to Cities and Towns: Prior to the 1947 fiscal year, Income Tax Collections were distributed to cities and towns under the provisions of the Tercentenary Edition of the General Laws, Chapter 58, Section 18, but beginning with the 1947 State fiscal year and continuing through the 1949 State fiscal year, the amount of income tax receipts to be distributed to the cities and towns was included in the annual appropriation act.

It should be noted that Section 18 of Chapter 58 of the Tercentenary Edition of the General Laws provides that the State Treasurer shall make distribution of income tax receipts to the cities and towns and not the Department of Corporations and Taxation. However, actually the distributions are made by the State Treasurer from schedules furnished by the Department of Corporations and Taxation.

A statement showing the distribution of income tax receipts to the cities and towns for the period of July 1, 1949 through June 30, 1950 follows:

Income Tax Receipts - Agency Fund

July 1, 1949 through June 30, 1950

Balance July 1, 1949	\$14,884,195 51
Transferred from Massachusetts Hospital School	150,538 16
Tax Receipts for the Period	37,025,171 87
	<u>\$52,059,905 54</u>
Receipts - Sale of Paper	268 74
	<u>\$52,060,174 28</u>
Less:	
Refunds of Taxes	207,486 68
	<u>\$51,852,687 60</u>

Tax Receipts Distributed to Cities and Towns:	
July	2, 1949
July	1, 1949
November	20, 1949
November	20, 1949
	\$10,900,000 00
	1,000,000 00
	6,300,000 00
	3,619,078 07

February 10, 1950	\$ 2,000,000 00	
April 7, 1950	15,717,078 07	
June 7, 1950	8,000,000 00	\$47,536,156 14

Charges for Expenses of Income Tax Division	\$2,482,155 49	
Departmental Transfer	85,555 37	2,567,710 86
		\$50,103,867 00
Balance June 30, 1950		1,748,820 60*
		<u>\$51,852,687 60</u>
* Balance Prior to Comptroller's Letter dated June 30, 1950	\$1,748,820 60	
Transfer to General Fund, Construction of School Projects	600,000 00	
Adjusted Balance June 30, 1950	<u>\$1,148,820 60</u>	

Tax Distribution for 1950: In connection with the foregoing comment it was noted that the 1950 budget also included a comparable item for distribution of these taxes for the 1950 fiscal year. This item was vetoed by His Excellency, the Governor.

Abatements and Refunds: The department records indicate that Abatements and Refunds totaling \$10,166,878.38 were made during the year ended November 30, 1949. Of this total, \$9,907,379.01 was for miscellaneous taxes and \$259,499.37 was for income taxes.

During the period covered by this audit, refunds totaling \$476,136.07 were made to a large corporation, covering several years period. Interest totaling \$9,816.45 was allowed only on three small amounts. These refund checks were endorsed back to the Commonwealth in payment of other taxes.

Accounts Receivable - Unpaid Taxes: The records of the department show total unpaid taxes on accounts receivable as of November 30, 1949, to be as follows:

Income Taxes	\$1,657,027 46
Miscellaneous Taxes	4,701,116 07
Total	<u>\$6,358,143 53</u>

A breakdown of the debit and credit balances is as follows:

Debit Balances:		
Income Taxes	\$1,708,027 18	
Miscellaneous Taxes	5,287,079 47	\$6,995,106 65
Credit Balances:		
Income Taxes	\$ 50,999 72	
Miscellaneous Taxes	585,963 40	636,963 12
Net Total		<u>\$6,358,143 53</u>

It is suggested that an effort be made to clear up the credit balances appearing in the accounts receivable - unpaid tax accounts.

A total of 1,234 verification notices were sent out in connection with this audit on unpaid balances of November 30, 1949. Of this total, 570 notices were for income tax accounts and 664 for miscellaneous tax accounts. A large number of notices were returned by the postal authorities, the parties addressed not being located.

Some of the open balances date back for many years, and it is believed that accounts that are definitely uncollectible should be cleared from the records by the proper procedure.

Miscellaneous Taxes, Assessments and Abatements: Some difficulty was experienced in verifying the assessments and abatements entered in the control ledger from the records in the several sections. It is suggested that a uniform method be established namely, that abatement slips sent to the collector's office be accompanied by a schedule which will show a total and that after this total has been verified to the individual abatement slips, it will be the basis of entry in the control account. This arrangement is now in effect for income taxes and has proved satisfactory.

Railroad Companies - Unpaid Taxes: It was noted that on date of audit the Boston Terminal Company owed to the Commonwealth unpaid Railroad Company taxes totaling \$204,132.90. This total represents taxes accumulated since 1939.

Necessary Adjustments: The following transfers are necessary to correct the records in the Comptroller's Bureau:

	<u>Account No.</u>	<u>Plus</u>	<u>Minus</u>
Income Taxes	6940-101	\$ 5 07	\$ 85
Income Taxes	6940-101	108 73	-
Costs	1202-401	85	-
Domestic Corporation Taxes	6930-101	-	108 73
Domestic Corporation Taxes	6930-101	-	25 36
Motor Vehicle Excise	2700-117	25 36	-
Club Alcoholic Beverages	2700-161	-	5 07
		<u>\$140 01</u>	<u>\$140 01</u>

STATE FARM AT BRIDGEWATER

REPORT No. 51-3

Accounts Receivable: There is an account receivable amounting to \$60.00 due from a former physician for house rent. As this account is long overdue, it is again suggested that it be referred to the Attorney General for disposition.

Room Register: In order to provide a better control on rooms rented to employees, it is suggested that a room register be maintained.

Materials and Supplies: The inventory of potatoes taken on the date of this audit indicated an overage of 5,270 pounds.

Farm Records: Several clerical errors noted in the 1949 farm records and report were called to the attention of the proper institution personnel.

Patients' Cash Shortage: A shortage of \$11.65 was noted in this account when the cash was balanced in connection with the current examination. On the date of the previous audit, a shortage of \$1.79 was noted.

The variances would appear to indicate that this cash account is not accurately handled. It further appeared that the fiscal records are also in poor condition, many clerical errors presenting themselves.

Patients' Bankbooks: It was noted that the patients' bankbooks have not been verified with their respective depositors for several years. It is, therefore, suggested that they be sent to the banks concerned for verification as soon as is convenient.

NORTHAMPTON STATE HOSPITAL

REPORT No. 51-4

Salvage Sales: The following schedule shows the revenue recorded as having been received from salvage sales:

Scrap Metal, Rags, Bags, etc.	\$296 80	Sold to highest bidder
Vegetables, Hay, Farm Equipment	19 00	To other institutions
Hides and Sets	24 51	Per condition
Keys, Wood, Old Tires, Slate	88 75	To employees
Swine	88 70	To highest bidder
	<u>\$517 76</u>	

Materials and Supplies: A test inventory was taken on August 30, 1950. Overages of \$177.97 and Shortages of \$95.60 were noted on inventoried items valued at \$67,024.20.

During the period under audit overage adjustments aggregated \$1,899.82 and shortages adjustments aggregated \$570.27 in relation to issues valued at \$425,010.04.

Repairs to Hospital-Owned House: The institution requested and received approval of the Department of Mental Health to make certain repairs to the so-called house

"Grove 122" and to construct a one car garage.

According to the monthly reports of the superintendent of this institution, maintenance employees worked on these repairs during the months of February, March and April 1950.

No estimates, actual costs or the value of these repairs are available at the institution. As these repairs are Betterments and/or Capital improvements to income producing property the actual costs should be available and reflected in the annual Real Estate report.

In this connection it was noted in the institution's request for approval to make the repairs, dated January 6, 1950, the superintendent stated as follows:

"The monthly rental, according to survey rates is \$21.75, which is too low and if the house is redecorated and a garage built it should be raised to about double that amount."

Under date of August 11, 1950, the Commission on Administration and Finance established a new rental rate of \$31.75 per month, an increase of only \$10.00 per month.

It is recommended, in view of the foregoing, that the Commission on Administration and Finance review the cost of the repairs and new construction with relation to the rental rate established.

Farm: From the tabulation of monthly farm reports for the 1949 farm year the following mortality rates were noted:

	<u>Born</u>	<u>Purchased</u>	<u>Died</u>	<u>Rate</u>
Swine:				
Pigs	399	-	94	23.56%
Poultry:				
Chicks	-	1200	216	18.0%
Hens and Chicks combined	-	2418	417	17.24%

Patients' Funds: It was noted that there was a \$30.00 shortage in cash when the cash was counted and balanced on the opening day of this audit.

There was also noted a variance of \$8.37 between the individual balances of the patients' accounts and the cash book balance that day.

A tabulation of bank account balances, war savings bonds, gold and coin on hand July 10, 1950 was as follows:

Bank Account	\$16,297 33
War Bonds and Stamps	1,551 00
Gold and Coin	24 04
	<u>\$17,872 37</u>

Included with these bank accounts were bankbooks with balances aggregating \$2,206.98 which are not subject to withdrawal by the individual patient.

Canteen: There was a cash overage of \$6.35 at the time the cash was counted on July 10, 1950.

Other Funds: It was noted that there have been no expenditures from these funds since prior to July 1, 1949. As the balances in these two funds total only \$10.36, it is suggested that some means be found to expend them so that the accounts can be cleared from the records.

DEPARTMENT OF MENTAL HEALTH

GENERAL DEPARTMENT

REPORT No. 51-5

Adjustments and Cancellations - Institution Income - Patients' Board: Adjustments in individual accounts totaling \$725,999.06 were made during the 1950 fiscal year. Because this amount appeared to be excessive when compared with prior years, in spite of the fact that under the machine bookkeeping system a nominal increase should be noted, it was decided that an effort should be made to determine the cause of this increase and also to check the validity of the transactions.

There are two agencies which may presumably authorize the cancellation of bills for

patients' board at State Mental Health institutions, i. e. the office of the Attorney General of the Commonwealth and the Department of Mental Health. In the case of the latter agency it was the opinion of the Attorney General that the Department could cancel charges for patients' board on all accounts, excepting those which had been forwarded to the Attorney General's office for disposition. This is indicated in a letter from the Attorney General dated May 11, 1948.

Adjustments totaled \$142,401.51 for April 1950. In this connection it was noted that adjustments made by the Billing Section, with the exception of those authorized by the Division of Settlement and Support, do not have the prior written approval of any official of the Department of Mental Health.

These adjustments were after checking placed in the following categories for purposes of comparison:

Errors Due to Date of Death, Discharge, or Visit not Noted (490 accounts)	\$ 69,011 84
Canceled by Division of Settlement and Support Unable to Pay	53,544 39
Claims Rejected by Veterans' Administration	6,514 00
Transfers from Family Support to Veterans' Administration	3,195 23
Charged off by Attorney General	3,948 58
Overcharges	2,364 97
Transfers from Active to Inactive, etc.	1,885 05
Amended Rate	1,307 52
Prior Payment Credit	224 92
Credited Wrong Account	207 86
Section 100 (Criminally Insane)	197 15
	<u>\$142,401 51</u>

It is evident from the foregoing that a great number of adjustments were necessitated by failure to accurately note instances and dates of deaths, discharges, or visits of the patients.

This fact was further substantiated by the response to verification notices mailed in connection with this audit. In many instances the person replying to the notice stated that the balance as indicated was incorrect and after the matter was checked was found to be so. These instances were called to the attention of the Billing Section and the necessary adjustments were made.

In this connection attention is called to an account which showed a balance of \$652.90 on June 30, 1950. It was later found through information returned on the verification notice that there was an overcharge of \$444.33 on this account because the patient had been on visit from June 12, 1949 to April 15, 1950 and the department had not taken this information into consideration.

Attention is also called to an account which showed a balance of \$145.73 on June 30, 1950. The answer to the verification notice indicated that the patient had died on March 21, 1950 but the billing had continued from that date to June 30, 1950 even though the person billed had previously informed the department of the situation.

Another instance was noted of a patient who was admitted to an institution on June 17, 1949 and was discharged on August 17, 1949; yet he was charged and billed each succeeding month until June 30, 1950.

Attention is also called to an account which showed a credit balance of \$215.75 on the date of audit. The response to the verification notice indicated that this balance was incorrect, and it was determined after checking that an error had been made in an adjustment and that the account should actually have been closed.

These are but a few of the many cases noted in connection with this examination.

Increased Cash Collections Account of Patients' Board Due To Installation of Machine Billing System: A comparison follows showing certain information regarding some years during which this department operated its Billing Section manually as compared with the current machine system. The years from 1944 to 1949 inclusive show operations under the original system and the year 1950 the first full year of machine operation.

Fiscal Year	Collections	Salaries and Expenses	Collections Cost per Dollar	Increases	
				Collections	Expenses
1944	\$1,051,835 36	\$38,047 40	.036	-	-
1945	1,076,294 41	38,063 06	.035	\$24,459 05	\$ 15 66
1946	1,152,697 91	41,175 57	.0357	76,403 50	3,112 51
1947	1,200,411 39	48,155 42	.0401	47,713 48	6,979 85
1948	1,247,263 80	50,378 63	.0404	46,852 41	2,223 21
1949	1,294,427 19	55,737 38	.0430	47,163 39	5,358 75
1950	1,379,730 07	85,411 56	.0610	85,302 88	29,674 18

Collections therefore were \$85,302.88 more in 1950 than in 1949, however, attention is called to the fact, as indicated in the above table, that there has been a tendency toward increased collections for many years. In this connection attention is further called to the substantial increase in expenses of the Division of Settlement and Support. As a matter of fact the total expended in 1950 includes the following items paid in connection with the new machine bookkeeping:

Rental of Machines	\$6,572 40
Cards	486 50
Paper	687 60
	<u>\$7,746 50</u>

Accounts with the Attorney General for Collection: In attempting to establish an accurate list of patients' board accounts which had been sent by the department to the Attorney General for disposition it was found that certain accounts shown on the department's records could not be located in the office of the Attorney General. On the other hand it was also noted that there were accounts in the Attorney General's office for collection that could not be found on the department's records.

It is therefore recommended that the department make an effort to establish an accurate, up to date list of all accounts in this category, and that it be submitted to the office of the Attorney General for disposition.

Accounts Receivable - Departmental: The balance in this account on date of audit consisted of three accounts totaling \$138.87 for board at the Hospital Cottages in Baldwinville. These accounts were from seven to nine years old; therefore it is recommended that these accounts be submitted to the Attorney General for permission to be charged off.

It was further noted that not all Departmental Income was being charged to Accounts Receivable - Departmental Income. An amount noted was for \$600.00 in unclaimed plans, which had been forfeited by the department and sent to the State Treasurer as income. This matter was called to the attention of the bookkeeper who made adjusting entries to include these items in this account.

Plans and Specifications: On date of audit numerous certified checks were listed, the dates of which varied from one to six months prior to the date listed. The plans and specifications issued to the contractor stipulated as follows:

"Contractors desiring to bid on this work must deposit for the withdrawal of plans and specifications the sum of --- to be refunded to those returning them in satisfactory condition within ten days after the opening of bids."

It has not been the practice to follow this procedure. Checks have been returned to contractors regardless of whether or not the plans and specifications are returned within the required period of time.

It is therefore further recommended that the department see that conditions as stated in the plans and specifications are complied with and that after the expiration of time indicated the certified checks be forfeited and sent to the State Treasurer as income.

State Bank Account - Name of Former Commissioner: In connection with reconciling the State bank account on the date of audit, it was noted that it was still in the name of the Commonwealth of Massachusetts, Department of Mental Health, Clifton T. Perkins, M.D., Commissioner.

Dr. Perkins resigned March 31, 1950; therefore, it is suggested that the account be

officially placed in the name of the Assistant Commissioner, who is now the acting head of the department.

Old Outstanding Checks in the State Bank Account: Included in the list of outstanding checks in this account on date of audit were two checks which had been outstanding longer than one year. One of these, in the amount of \$.18, has been outstanding since August 31, 1948, and the other, in the amount of \$1.20, since March 5, 1949. Since both of these checks were issued to the State Department of Public Works, it was recommended that payment be stopped and new checks issued.

Accounts Receivable - Patients' Wages: It was noted that the Accounts Receivable - Patients' account had a credit balance on date of audit. In this connection it was noted that this account was credited twice for money received by the office on account of wages; once from the cash book and later through journal entry.

This matter was called to the attention of the bookkeeper and the proper adjustments were made so that the balance now shown reflects the correct amount of wages owed to the various patients.

It is recommended that a trial balance of patients' wage cards be taken monthly and reconciled to the control account in the general ledger.

LYMAN SCHOOL FOR BOYS

REPORT No. 51-7

Farm Records: The farm report for the 1949 farm year had not been compiled to date of audit, consequently these accounts were not examined.

Inmates' Receipt Books: Slip No. 35 of Book No. 4101 used by the Reception Center of the Youth Service Board could not be located by the institution authorities for examination in connection with the current audit.

STATE HOUSING BOARD

REPORT No. 51-8

General: All projects constructed under Chapter 372 of the General Laws are under the jurisdiction of the State Housing Board with the exception of the so-called Title V projects which were built by the Federal Government and transferred to the cities and towns wherein they are located. The latter group of projects are under the direct control of the Chairman of the Board.

Under the provisions of Section IV of Chapter 372 of the General Laws there were, as of June 30, 1950, 3,856 units for temporary housing upon which no State subsidy is paid. Under Section VI of the same Chapter there were 1,736 permanent units completed and 15 units under construction. The total estimated approved cost of these permanent units is \$19,932,346.00 of which the State subsidy will ultimately be ten per cent.

As of the date of audit there were thirteen localities with projects completed under Chapter 372. Nine of these are already receiving subsidies from the Commonwealth.

An examination of certain audit reports made of housing authorities where subsidy certifications were made indicated differences in certain instances between the development cost expenditures shown in these audit reports and the amount certified by the State Housing Board. This was found to be caused by the inclusion by the State Housing Board of finance charges borne by the cities and towns concerned which were applicable to the development period.

All projects constructed under Chapter 200 of the General Laws are confined exclusively to the direction of the Chairman of the Board.

The following shows the construction progress under Chapter 200 as of June 23, 1950: number of communities with projects in construction stage, 65; number of units in projects in construction stage, 8,107 and number of units completed for occupancy, 4,697.

Contracts for Financial Assistance: The previous audit report commented upon the failure to secure approvals in all cases of the Attorney General's office for the contracts for financial assistance. As of this audit date, it was noted that 50 out of a total of 118 contracts still did not bear this approval.

In this connection the following information is given: total projects authorized, 118; total units authorized, 13,383 and estimated total development cost, \$163,974,600.00.

Chapter 200 also provides for a subsidy to be paid from the Veterans' Fund up to 2 1/2% of total construction cost for a period of 40 years. This may amount to \$5,000,000.00 per year based with a total authorized construction cost of \$200,000,000.00.

As of the date of audit, no projects have been transferred to permanent financing under Chapter 200.

Financing of Projects under Chapter 200: The previous audit report pointed out the advantage of having all bond issues in the name of the Commonwealth so that the lower

interest rates might provide ultimate reduction in the housing costs and would eventually result in lower rentals to all occupants of the projects. The method of financing Chapter 200 projects under the present statute requires the individual housing authorities to issue bonds in their own names with the Commonwealth as guarantor. It is again recommended that the Chairman of the State Housing Board seek to have the present statute amended so that the permanent financing bond issues will all be in the name of the Commonwealth.

Minutes of the Board: It was noted that minutes of the State Housing Board meeting of July 5, 1949 certified Quincy's total development cost of \$407,604.37. This included \$399,364.15 for development cost and \$7,740.22 for finance charges. It was noted however that this finance charge was overstated by \$826.77. When the subsidy was paid for the first year, it was computed on the correct amount, but there was no amendment made in the minutes for this decrease. It is recommended that this charge be voted on and recorded in the minutes to amend those of July 5, 1949.

Transfer of Chapter 372 Projects into the Chapter 200 Program: It was noted that contracts for financial assistance were written in the amount of \$9,577,000.00 for seven projects which were transferred from Chapter 372 to Chapter 200.

Petty Cash: It was noted that checks drawn for reimbursement of petty cash are made payable to "Cash" instead of to the custodian of the petty cash fund. This procedure would permit any person to obtain the proceeds of such a check. It is, therefore, recommended that the custodian of the petty cash fund be designated as the payee of these checks.

Voided Checks: During the process of reconciling the bank accounts, it was found that checks which were written in error were destroyed and not kept on hand. It was also found that unused checks were destroyed and not kept on hand, making it impossible to verify the authenticity of all disbursements. It is recommended that all voided and unused checks be kept available for examination in connection with the annual audit.

Accounts Receivable: The accounts receivable on June 30, 1950 was \$47,636.61. This represents the amount due from various cities and towns housing authorities for counselling services rendered by the State Housing Board for the period of April, May, and June, 1950. An amount of \$4,903.69 which was for services prior to April, 1950 was entered in the journal but was not posted to the ledger. While the audit was in progress this adjustment was made. It was noted that of the foregoing \$4,903.69, the amount of \$1,605.44 had been paid as of June 30, 1950, but was still carried as accounts receivable at that date. An adjustment is to be made in the 1951 fiscal year to correct this item. It is recommended that the record of the charges be made on the books at the time of billing.

Insurance: An examination of the policies and records pertaining to fire coverage for all projects constructed under Chapter 200 of the General Laws, showed that this insurance was awarded to only four stock and two mutual companies under a blanket contract. This contract was not awarded after competitive bid, but was granted under an arrangement effected by insurance representatives of the State Housing Board. The percentage of participation between the two types of companies is 75% of coverage to the stock companies and 25% to the mutual companies. All the insurance companies involved are incorporated in Massachusetts with the exception of one stock company which bears one of the two largest individual percentages of participation.

GARDNER STATE HOSPITAL

REPORT No. 51-9

Meal Tickets: It was learned that certain employees of the institution have been served meals at the institution cafeteria without surrendering a meal ticket at the time the meal is consumed. This practice is in violation of the "Rules and Regulations Governing Employees' Feeding" which read in part as follows: "Institution employees shall pay for meals through the purchase of books of meal tickets, in advance, and the surrender of one ticket each time a meal is consumed."

Materials and Supplies: A physical inventory of materials and supplies which are carried in the stock ledger was taken in connection with this examination on August 28, 1950. A comparison of this physical inventory with the stock ledger balances indicated variances in more than one hundred items. Many of these differences are for substantial amounts, particularly meats. These variances were adjusted on July 31, 1950.

On the date of the audit there were 1152 #10 cans of purchased string beans on hand which were purchased in May and June of 1949. It is suggested that these string beans be transferred to some other institution where they may be consumed in the near future.

Canteen: Previous audit reports have discussed inventory variances in the canteen.

This current examination of the institution canteen accounts indicates a shortage of \$151.14 between the book inventory and the physical inventory.

PORT OF BOSTON AUTHORITY

REPORT No. 51-10

Authorization for and Status of Bond Issues: Section 10 of Chapter 619 of the Acts of 1945 provides in part:

"Section 10. Subject to the conditions herein imposed for the purpose of purchasing sites and pier locations and for the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, inserted therein by section three of this act, the state treasurer, shall upon request of the Authority and with approval of the governor and council, issue and sell at public or private sale bonds of the commonwealth, registered or with interest coupons attached, as he may deem best, to an amount to be specified by the Authority from time to time, but not exceeding, in the aggregate, the sum of fifteen million dollars . . ."

The status of the bond account authorized under this act follows:

Bonds Authorized		\$15,000,000 00
Bonds Issued:		
Hoosac Pier and Grain Elevator		
Property:		
Bonds Issued	\$5,000,000 00	
Improved Pier and Grain		
Facilities, East Boston:		
Bonds Issued	3,500,000 00	
Mystic Wharves, Property		
Improvements:		
Bonds Issued	600,000 00	\$9,100,000 00
Bonds Authorized-Not Issued:		
Boston and Albany Piers,		
East Boston	\$4,000,000 00	
Castle Island	1,200,000 00	
Mystic Wharves Improvements	700,000 00	5,900,000 00
		<u>\$15,000,000 00</u>

Expenditures and Encumbrances under Bond Issue: The State Treasurer in compliance with requests from the Authority has issued bonds totaling \$5,000,000.00 to June 30, 1950 under Hoosac Pier and Grain Elevator. The following is a summary of expenditures and encumbrances to June 30, 1950 in this account:

Amount Authorized and Bonds Issued	\$5,000,000 00
Expenditures and Encumbrances	<u>4,859, 857 51</u>
Balance Available	<u>\$140,142 49</u>

	Payments	Encumbrances	Total
Payments and Encumbrances:			
Cost of Substructure	\$1,598,010 47	-	\$1,598,010 47
Purchase of Hoosac Pier	1,042,176 00	-	1,042,176 00
Excavating, Dredging and Filling	368,163 34	-	368,163 34
Purchase of Grain Elevator	100,000 00	-	100,000 00
Engineer Agreement	90,596 97	\$ 27,403 03	118,000 00
Personal Services	124,208 22	-	124,208 22
Expenses	33,221 97	288 96	33,510 93
Demolition Grain Elevator and			
Buildings	18,700 00	-	18,700 00
Test Borings	2,957 86	-	2,957 86
Battery Charging Building	69,340 76	700 41	70,041 17
Repairs to Elevator	579 98	110 02	690 00
Testing Materials at Hoosac	4,481 51	1,518 49	6,000 00
Machinery for Handling Grain	10,275 00	4,725 00	15,000 00
Construction of Superstructure	519,196 18	201,510 03	720,706 21
Fire Alarm System	4,301 93	3,212 07	7,514 00
Track Well Bridge	6,974 25	3,965 75	10,940 00
Roadway	9,455 04	-	9,455 04

Steel for Grain Elevator	\$ 48,322 02	\$ -	\$ 48,322 02
Furnishing and Installing Special Machinery for Grain Elevator	217,837 30	36,721 74	254,559 04
Anchorage System	84,341 25	14,883 75	99,225 00
Electric Light System	1,553 80	731 20	2,285 00
Steel for Superstructure	191,091 09	-	191,091 09
Rehabilitation of Trackage	423 38	-	423 38
Dedication Plaque	-	1,134 00	1,134 00
Dredging	-	13,100 00	13,100 00
Engineering Investigations Pertaining to Anchorage for Substructure	-	3,644 74	3,644 74
	<u>\$4,546,208 32</u>	<u>\$313,649 19</u>	<u>\$4,859,857 51</u>

Hoosac Pier Lease: Chapter 619 of the Acts of 1945 also places the following limitations upon expenditures from funds provided by borrowing:

" no construction, to be paid from the proceeds of the bond issue hereby authorized, shall be done unless the Authority shall have first executed a written contract, approved by the governor, with a responsible party providing for the lease of said property, the minimum requirements of which shall be at a rate sufficient to amortize sixty per cent of the actual cost to the commonwealth of the facilities included in the lease, over a period not to exceed twenty years, which contract may provide that at the expiration of the term of the lease it may, at the option of the lessee, be renewed for a further period of twenty years and provided, further, that no expenditure or commitment from the proceeds of said bond issue in excess of five million dollars shall be made without further authorization by the general court therefor"

In this connection the previous audit report stated:

"The Legislature in this section required a twenty-year lease of planned new construction before such construction is initiated. If such provisions are met by the Port Authority, recovery of at least sixty per cent of public funds so expended is assured, and the section further acts as a curb on unrestrained and non-essential construction.

"The Port Authority, ignoring the provisions of this section, has initiated construction of a new pier to replace the Hoosac Pier and has leased the new pier to a railroad for only five years.

"Evidently there existed some doubt in the mind of the Port Authority as to the legality of this procedure, since on February 8, 1946, the Chairman of the Authority asked the Attorney General the following question:

'May construction to be paid for from the proceeds of a bond issue authorized by Section 10 of Chapter 619 of the Acts of 1945 entitled "An Act abolishing the Boston Port Authority, and establishing a Port of Boston Authority and defining its powers and duties", be done if the Port of Boston Authority shall have first executed a written contract, approved by the Governor, with a responsible party providing for the lease of said property for a term -- for example, five years -- shorter than twenty years and shorter than the maximum term of said bonds -- for example, fifteen years -- and at a rate sufficient to amortize sixty per cent of the actual cost to the commonwealth, of the facilities included in said lease, over a period not exceeding twenty years?'

In his reply dated February 21, 1946, the Attorney General did not settle the question, but stated in part:

' While I am of the opinion that said Chapter 619 does not require a lease entered into before beginning construction of a port improvement to be self-liquidating during its term, the possibility cannot be ignored that a different construction might be reached in the event of litigation.'

"Despite this ambiguous reply, the Port Authority on the strength of a five-year lease has committed public funds to the erection of the pier, and the situation today is further complicated by the fact that the lease signed with the railroad on April 17, 1947, states in part:

' . . . In no event shall the Commonwealth be required to expend more than the sum of two million, six hundred thousand dollars for the cost of the pier facilities.'

In this connection attention is called to the fact that apparently the cost of the construction of the pier and its facilities was greater than originally estimated, and a new lease was entered into in May 1949, reading, in part, as follows:

"Yielding and paying during said term a rental equal to three per cent of the actual cost of the pier facilities to the Commonwealth as that term is used in Section 10 of Chapter 619 of the Acts of 1945, provided that such actual cost which shall include the cost of acquiring the land shall in no event exceed four million four hundred eight thousand two hundred eighty nine dollars. (\$4,408,289.00)"

Hoosac Pier - Additional Work: Apparently after the substructure and superstructure of Hoosac Pier were built certain additional construction was necessary. The following is a copy of a letter to the Commission on Administration and Finance requesting approval for these expenditures:

(COPY)

The Commonwealth of Massachusetts
Port of Boston Authority
Commonwealth Pier No. 5
Boston 10

February 10, 1950

Commission on Administration and Finance
State House
Boston, Massachusetts

Attention: Mr. Thomas H. Buckley, Chairman

Gentlemen:

In accordance with provisions contained in Chapter 29 Section 8A application is herewith made to your Commission for authority to advertise for a period of one week requesting competitive bids for the installation of an anchorage system and appurtenant work at Hoosac Pier No. 1, Charlestown, Massachusetts.

An emergency exists in connection with the pier substructure which is dangerous to the safety and property of the public. Abnormal ground water conditions which were impossible to foresee have created excessive pressure conditions within the filled area causing movement of the steel sheet piling bulkhead.

This condition unless corrected may become progressive and jeopardize the structure as completed for which the Commonwealth has invested the sum of approximately \$5,000,000.00.

Attached hereto for your consideration and approval please find formal request for an expenditure of an estimated sum of \$100,000.00 to cover the cost of this additional work.

Due to the emergency nature of this request your early consideration and decision will be greatly appreciated.

Very truly yours,

Port of Boston Authority

Acting Director

Approved
by

Commission on Administration
JMB/EFS/rg and Finance
s/ Thomas H. Buckley
Thomas H. Buckley
Commissioner of Administration

RECEIVED
ADMINISTRATION AND FINANCE
(Stamped) Feb. 23, 1950
OFFICE OF THE CHAIRMAN

In this connection it was noted that the project was properly advertised and a contract in the amount of \$99,225.00 was awarded on February 20, 1950. Construction began on February 23, 1950 and was completed on May 13, 1950.

Hoosac Pier to Boston and Maine Railroad: Although the Hoosac Pier has not officially been entirely completed, it is apparently in condition to accommodate ships and vessels. On June 28, 1950 the S.S. "Yankee Fighter" discharged 18,000 bags of wool there. It was noted that the Commissioners of the Port of Boston Authority turned over this pier to the Boston and Maine Railroad on August 9, 1950 notwithstanding the fact that there were no signed agreements to do so.

In this connection attention is called to the following exchange of correspondence:

(COPY)

August 15, 1950

Boston and Maine Railroad
North Station
Boston, 14, Massachusetts
Attention:, Executive Vice President
Gentlemen:

Reference is made to the indenture of lease dated April 17, 1947, between the Commonwealth of Massachusetts, acting by the Port of Boston Authority, and the Boston and Maine Railroad, for the construction and rental of the Hoosac Pier facilities, and amendment dated May 18, 1949, for increasing the total cost of the pier facilities to \$4,408,289.00.

This agreement provides that the lease shall be "for a term beginning with the completion of the pier facilities..." and further provides, "The parties hereto agree that if within (30) thirty days after the date of completion of the pier facilities as determined by the Authority, the parties shall not agree upon the cost of the pier facilities, such cost shall be determined by arbitration as hereinafter provided."

Although the pier facilities are not entirely complete at this time, the Authority desires that the Boston and Maine Railroad take over the pier facilities and operate them immediately pending completion of the work and determination of a total cost figure.

Because of the impending national emergency and the critical shortage of port terminal facilities, it is deemed by the Commissioners of the Authority to be in the best interests of the Commonwealth for the railroad to take occupancy now rather than to wait for an official completion date. However, the Authority and the railroad will adhere to the terms of the agreement, which provides that the term will commence upon the completion of the pier facilities, and rental as provided in the agreement will commence upon the date of completion. The determination of that date will be by mutual agreement of the parties. In no event will the completion date be established later than March 1, 1951, and if both parties fail to agree beforehand, then it is hereby agreed that said completion date is established as March 1, 1951.

The contract for the superstructure of the pier has not been accepted, and it will probably take several months to finish all the work for satisfactory completion of the contract. After completion of the contract it will be necessary to dispose of the claims of the contract. In the meantime the railroad and the Authority will have an opportunity, as verbally agreed on July 26, 1950, of further amending the present agreement to cover the expenditure of approximately \$100,000.00 for the additional anchorage system, which was an unforeseen contingency, and was necessary for the integrity of the structure, plus increased interest charges due to the longer time needed to complete the facilities.

As also discussed on July 26, 1950, the Boston and Maine Railroad and the Authority agreed to amend the existing agreement for the grain elevator facilities to \$605,000.00, to permit exceeding the maximum total cost of \$525,000.00, for the purpose of making repairs, alterations and improvements as covered in List A accompanying a letter from the Authority to your Chief Engineer, dated March 24, 1950.

We would appreciate your acknowledgement of this letter and your acceptance of the procedure and terms herein set forth. We hope that this

meets with your approval, as it would be in the best interests of all concerned.

Very truly yours,

JMB:GLW:EL

Acting Director

(COPY)

BOSTON and MAINE
RAILROAD

North Station
Boston 14, Mass.

August 28, 1950

....., Acting Director
Port of Boston Authority
Commonwealth Pier, No. 5
Boston 10, Mass.

Dear

This will acknowledge receipt of your letter of August 15th pertaining to the amending of the present agreement covering the cost of construction of Hoosac Pier No. 1, and also amending the existing agreement covering the cost of the grain elevator facilities at Hoosac Pier.

The proposals made by you are acceptable to us, and I am asking Mr. to work up the necessary agreements to cover.

Yours very truly,

s/Executive Vice President

In this connection attention is called to the fact that even though this foregoing correspondence started on August 15, 1950, it appears that the railroad had been operating the pier for some time previous to that date.

It further appears that until such time as the Authority officially indicates that the pier is completed, the railroad will operate the pier rent free.

Hoosac Pier Grain Elevator Property: This property was purchased from the Boston and Maine Railroad for the sum of \$100,000.00 in accordance with an agreement dated in April 1948. The cost of additions and alterations was estimated to be \$425,000.00, making an aggregate cost of \$525,000.00. A lease was executed on this basis with the Boston and Maine Railroad for rental of the elevator upon completion, at a rental equal to 3% of the cost of the elevator and additions and alterations for a term of twenty years.

In connection with the foregoing it is indicated that the cost of additions and alterations will exceed the original estimated cost by \$80,000.00.

In this connection it is noted that an amended lease based on a total cost of \$605,000.00 is now in the process of negotiation.

Purchase of Boston and Albany Piers - East Boston: Chapter 545 of the Acts of 1948 states in part as follows:

"Subject to the conditions imposed by section ten of chapter six hundred and nineteen of the acts of nineteen hundred and forty-five, the Port of Boston Authority is hereby authorized, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, to make commitments and expenditures, without further authorization by the general court therefor, from the proceeds of the bond issue provided for by said section ten up to but not in excess of the amount of seven million five hundred thousand dollars, such amount to be in addition to the amount heretofore authorized to be expended from said proceeds."

The following is a schedule of the disbursements and encumbrances under this account to June 30, 1950:

Bonds Authorized	\$7,500,000 00	
Bonds not Issued	<u>4,000,000 00</u>	\$3,500,000 00
Less:		
Payments and Encumbrances		<u>3,271,795 30</u> <u>\$228,204 70</u>

	Payments	Encumbrances	Total
Payments and Encumbrances:			
Purchase of Land	\$3,000,000 00	-	\$3,000,000 00
Personal Services	68,098 50	-	68,098 50
Expenses	14,333 83	\$ 380 30	14,714 13
Engineering Agreements	72,595 48	90,615 00	163,210 48
Demolition of Grain Gallery	10,880 00	2,135 00	13,015 00
Relocation of Electric and			
Air Service	4,602 68	812 24	5,414 92
Utility Line Supports	3,370 25	594 75	3,965 00
Test Borings	1,890 98	-	1,890 98
Renovating of Heating System	951 29	-	951 29
Replacing Aerial Cable to			
Allow Demolition	535 00	-	535 00
	<u>\$3,177,258 01</u>	<u>\$94,537 29</u>	<u>\$3,271,795 30</u>

A lease for the East Boston Pier facilities dated July 1, 1949 was properly approved by the Governor and Council and bears the seal of the Secretary of the Commonwealth. The facilities consist of four piers and one open pier. Pier #2 was demolished, hence the estimated value of the land under or about the demolished pier was deducted from the purchase price upon which the lessee pays 3% annual rental, on the interim lease, computed as follows:

Cost of Land	\$3,000,000 00
Less:	
Value of Pier #2	<u>175,000 00</u>
Net Cost	<u>\$2,825,000 00</u> @ 3% equals
	\$84,750.00
	annually.

The remaining piers are apparently in good condition and will probably require no major repairs. They are presently in use.

At the expiration of this interim lease - when the Port Authority has completed the new pier - a lease for twenty years (with option for renewal) will be in force. This lease provides for annual rental of 3% of the cost of construction, based on the following tentative figures:

Purchase Price	\$3,000,000 00
Value of Commonwealth lands	145,000 00
Estimated Maximum Cost	<u>4,500,000 00</u>
	<u>\$7,645,000 00</u>

Mystic Pier Lease: The purchase price of this facility, which was approved by the Governor and Council on September 1, 1948, was \$1,345,000.00.

An interim lease was granted to the lessee, the Boston and Maine Railroad, on October 23, 1948. There is no rental paid by the lessee during this interim period. The following excerpt from a memorandum to the Acting Director of the Port Authority from the Chief Engineer, dated February 16, 1950, follows:

"In lieu of a rental on the Mystic property acquired for the proposed pier facilities during the interim period between acquisition and construction, the lessee agreed to maintain and operate the grain elevator facilities for a period of approximately two years. Although the estimated cost of \$100,000.00 for the annual maintenance of the grain facilities appeared high, there was no definite way of determining the cost. In my opinion, the cost would be nearer \$80,000.00.

"There is apparently no question that the grain facilities were in very bad shape. It is the intention of the Authority, after completion of the Hoosac facil-

ities, to demolish and remove the Mystic grain elevator facilities because they are in such poor condition.

"It was decided by the Port Commissioners in July, 1948 that it would be to the best interests of the Commonwealth to have the lessee maintain the grain facilities in lieu of paying rent for the pier. It appeared that the benefits to the Commonwealth would be far greater by this arrangement."

A twenty year lease to begin when the activity is completed was approved on December 8, 1948.

Boston Harbor Terminal Facilities Loan Fund: This fund was established by Chapter 714, Acts of 1941, and was transferred to the Port of Boston Authority by Chapter 619 of the Acts of 1945.

The following is a summary of activities in this fund to June 30, 1950:

Original Authorization	\$4,700,000 00
Transferred from Boston Harbor Facilities Loan Fund	<u>1,300,000 00</u>
	<u>\$6,000,000 00</u>

Total Bonds Authorized	\$6,000,000 00	
Bonds not Issued	<u>700,000 00</u>	
Bonds Issued		\$5,300,000 00
Expenditures and Liabilities		<u>4,993,309 64</u>
Balance		<u>\$306,690 36</u>

Expenditures and Encumbrances:	Expenditures	Encumbrances	Total
Purchase of Land	\$1,345,000 00		\$1,345,000 00
Salaries	26,200 79		26,200 79
Expenses	4,754 98	\$ 505 88	5,260 86
Architectural and Engineering Services	94,149 64	35,527 86	129,677 50
Submarine Pile Inspections	4,360 00		4,360 00
Test Borings	3,805 28		3,805 28
Driving Test Piles	5,689 00		5,689 00
Moving Field Office and Miscellaneous Work	1,199 00		1,199 00
Construction of Mystic Pier #1		3,472,117 21	3,472,117 21
	<u>\$1,485,158 69</u>	<u>\$3,508,150 95</u>	<u>\$4,993,309 64</u>

Federal Funds - Port of Boston Authority: The General Services Administration of the United States Government agreed to advance the Port of Boston Authority the sum of \$44,000.00 to defray the cost of the original survey, investigation and preparations of preliminary plans on which detailed plans will be based for development of the Castle Island Terminal located in South Boston.

A check dated May 19, 1950 in the amount of \$11,000.00 was received by the Port of Boston Authority from the Federal Government as the first advance applying to the total amount authorized.

On April 20, 1950 a contract, properly executed was awarded in the amount of \$11,000.00 for these preliminary plans, etc.

Terminal Operators, Incorporated: On November 1, 1946, the Port Authority granted a permit to Terminal Operators, Inc., to operate the Castle Island Terminal for the handling of commercial cargoes.

Until June 30, 1948, under the terms of the lease the Port Authority was to receive 75% of the net income from operations of the terminal as rental.

A contract dated July 1, 1948 with this corporation provided as follows:

To pay the Port Authorities \$1,500.00 per month (base payments) and, in addition to make payments after making deductions hereinafter provided for equal to the percentages of net income, as hereinafter defined, of the li-

censee from the use and operation of the premises for each full year in force ...

53% of the amount of such net income not in excess of \$60,000.00

58% of the amount in excess of \$60,000.00 but not in excess of \$70,000.00

65% of the amount in excess of \$70,000.00 but not in excess of \$80,000.00

75% of the amount in excess of \$80,000.00

Under this agreement the following is a computation of the income accrued to the Port Authority from July 1, 1949 to June 30, 1950:

Total Revenue by Terminal Operators, Inc.		\$237,755 95
Less:		
Expenses		110,215 87
Net Income		<u>\$127,540 08</u>
	Total Net Income	Rent Due to Port of Boston Authority
53% of	\$ 60,000 00	\$31,800 00
58% of	10,000 00	5,800 00
65% of	10,000 00	6,500 00
75% of	47,540 08	35,655 06
	<u>\$127,540 08</u>	<u>\$79,755 06</u>
Balance Due Authority June 30, 1949:		
On Account 1948	\$ 850 00	
On Account 1949	\$17,323 09	
Add:		
Adjustments	67 02	17,390 11
		\$18,240 11
Add:		
Income Due Authority for 1950 Fiscal Year		79,755 06
		<u>\$97,995 17</u>
Deduct:		
Payments During 1950 Fiscal Year:		
On Account 1948 Balance	\$ 850 00	
On Account 1949 Balance	17,325 46	
On Account 1950 Income	38,347 39	56,522 85
		<u>\$41,472 32*</u>
Balance Due Authority, June 30, 1950		
		<u>\$41,472 32</u>
	* Analysis of Balance	
On Account 1949 Income	\$ 64 65	
On Account 1950 Income	41,407 67	
	<u>\$41,472 32</u>	

In connection with this schedule the items indicated were reconciled with the records of the Terminal Operators, Inc., which were made available only with respect to the income for purposes of this examination.

Accounts Receivable: Reference was made in previous audit reports to an unpaid account due from the New York, New Haven and Hartford Railroad Company, for trackage charges in the amount of \$5,382.98. During the current audit period additional charges of \$3,743.54 have been added and the outstanding charges on the date of audit totalled \$9,126.52. There have been no payments made against this account since December 16, 1948 and the amount has accordingly been turned over to the Attorney General for settlement.

It was also noted that there are several other accounts that are long overdue. It is suggested that these accounts also be turned over to the Attorney General for disposition.

Property Owned by the Port Authority: The following schedule prepared by the En-

gineering Division shows the property now owned by the Port of Boston Authority on June 30, 1950.

BUILDINGS

<u>SOUTH BOSTON</u>	<u>VALUATIONS</u>	<u>AREA IN SQUARE FEET</u>
Pile Pier (Grasselli)	\$ 22,500 00	15,000
Heating Plant and Chimney	41,000 00	4,840
Bosun's Locker	1,800 00	240
Shed Under Viaduct	22,000 00	6,250
E Street Storehouse	139,000 00	178,000
E Street Storehouse (Platforms)	23,500 00	18,000
Boilerhouse	6,500 00	2,500
Grasselli Building	25,000 00	15,000
Commonwealth Pier No. 5:		
Building	3,060,000 00	421,000
Pier Solid Portion	1,207,000 00	345,000
Pier and Platform	438,000 00	135,000
Commonwealth Pier No. 6:		
Pier Solid	720,000 00	360,000

EAST BOSTON PIERS

Commonwealth Pier No. 1:		
Pile Pier and Buildings	203,975 00	40,975
New York Central R. R.		
Buildings, Tracks, Piers,		
Transit Sheds, Warehouses, Grain		
Elevator, Conveyor Gallery,		
Machinery, Boiler House, Etc.	1,600,000 00	No Estimate

Charlestown

Hoosac Terminal Building	<u>4,000,000 00</u>	246,000
Mystic (No Value on Buildings.)		

Total	<u>\$11,510,275 00</u>	
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<u>LOCATION</u>	<u>VALUATION</u>	<u>LAND</u>		
		<u>AREA IN SQ. FT.</u>	<u>LAND OCCUPIED BY LEASE OR PERMIT</u>	<u>UNOCCUPIED LAND</u>
<u>SOUTH BOSTON</u>				
Pier No. 5:				
Docks	\$ 924,000 00	420,000	420,000	-
Pier No. 6:				
Docks	593,250 00	660,000	660,000	-
Land	230,000 00	177,100	177,100	-
Railroad Yard				
Flats:				
Land	9,104,900 00	3,200,530	2,330,117	870,413
Flats	66,000 00	355,728	355,728	-
Castle Island:				
Land	2,700,000 00	3,332,340	3,332,340	-
South Bay:				
Land	209,900 00	262,366	69,734	192,632
Flats	9,700 00	64,970	-	64,970
Docks	3,600,000 00	36,000	30,016	5,984

Continued)

EAST BOSTON

Pier No. 1:			Under Lease	-
Pier	\$ 20,487 50	40,795		
Land	58,340 00	58,340		-
Docks	16,578 50	33,157		-
N. Y. C. R. R.:				
Docks)	1,545,000 00	1,008,209	Under Lease	-
Land)		507,736		-
Pile Pier)		562,858		-

CHARLESTOWN

Hoosac Terminal				
Pile Pier-Land,			Under Lease	
Docks	1,142,176 00	685,370.2	685,370.2	-
Mystic Pier,				
Land, Docks	1,345,000 00		Under Lease	-
TOTAL	\$17,968,932 00			

Deficiency: Attention is directed to Schedule No. VII included in this report which demonstrates that the Port of Boston operated under a deficiency of \$746,397.51 during the fiscal year ending June 30, 1950, and that the total deficiency from port operations during the period from July 1, 1946 to June 30, 1950 amounted to \$2,073,846.71.

STATE TEACHERS COLLEGE AT BRIDGEWATER

REPORT No. 51-11

Room Rents: It was noted that as a result of a survey made by the Commission on Administration and Finance a new schedule of room rents was developed supposedly effective January 1, 1950. To date, these new rates have not been charged at this college. It is suggested that immediate steps be taken to put these new rates in effect.

DEPARTMENT OF PUBLIC WORKS - SPECIAL - FEDERAL AID

REPORT No. 51-12

Bookkeeping: It is recommended that:

- (1) All record keeping relating to Federal Aid be centralized in one place.
- (2) One over-all control accounts receivable be set up in the general ledger, which at the end of each month will show the grand total of the receivables.
- (3) Sub-control accounts to be set up - each control account to be supported by detail accounts, showing balances in the following stages:
 - a Unprogrammed Balances
 - b Programmed Balances
 - c Plans, Specifications and Estimates, Balances
 - d Agreement Balances
 - e Actual Accounts Receivable
- (4) Postings to be made currently and trial balances taken at the end of each month.

Comparison of Federal Apportionments to Massachusetts with Estimated Federal Taxes Collected on Gasoline in Massachusetts: As a matter of information, this comparison follows:

Comparison of Federal Apportionments to Estimated Federal Gasoline Tax
Receipts for the Period July 1, 1944 to June 30, 1950

Fiscal Year	Federal Apportionment	Estimated Federal Gas Tax Receipts	Excess of Estimated Receipts Over Apportionments
1945	-	\$ 6,748,367 00	\$ 6,748,367 00

1946	\$10,342,266 00	\$ 8,890,367 00	\$(1,451,899 00)
1947	10,341,676 00	10,843,170 00	501,494 00
1948	10,208,338 00	11,662,145 00	1,453,807 00
1949	-	11,926,855 00	11,926,855 00
1950	9,188,355 00	13,905,369 00	4,717,014 00
	<u>\$40,080,635 00</u>	<u>\$63,976,273 00</u>	<u>\$23,895,638 00</u>

The estimated Federal receipts were arrived at by taking 1/2 of the Massachusetts gasoline tax receipts. The Federal tax was 1 1/2¢ a gallon as against the 3¢ per gallon assessed by the Commonwealth.

Comptroller's Statement: As a matter of information a copy of a statement prepared by the Comptroller's Bureau showing an analysis of the Highway Fund, for the fiscal year ended June 30, 1950, follows:

Detail of Cash Receipts, Expenditures and Balances for the Fiscal Year
Ended June 30, 1950

	Receipts	Expenditures
Gasoline Tax	\$27,810,738 07	
Diesel Engine Fuel Tax	88,887 01	
Licenses and Permits (Motor Vehicles)	11,016,040 64	
Interest and Income	(14,648 70)	
Federal Reimbursements:		
State Highway Construction	7,888,874 56	
Highway Improvement Loan, Acts of 1949	1,012,774 40	
Other	154,232 40	
Departments:		
Legislative - Investigations		\$ 64 15
Public Safety		2,408,667 58
Public Works		41,711,495 05
Metropolitan District - Boulevards and Reservations		5,836,948 84
Miscellaneous and Unassigned		24,177 21
Debt Retirement		8,500 00
	<u>\$47,956,898 38</u>	<u>\$49,989,852 83</u>
Transfers from General Fund	637,500 00	
Transfers from Old Age Assistance Fund	30,000 00	
Transfers from Metropolitan District Commission	1,824,144 00	
Transfers to General Fund		738,927 00
	<u>\$50,448,542 38</u>	<u>\$50,728,779 83</u>
Depreciation Reserve	365,510 72	257,196 99
Accounts Payable	471,122 32	2,970,201 06
Accounts Payable (Contract Reserves)	453,196 73	
Inter-Fund Receipts	15,533 04	15,533 04
Refunded Receipts	1,847,024 23	1,847,024 23
Revenue Securities	25,000,000 00	24,000,000 00
Total Receipts, Payments, Transfers and Refunds	\$78,600,929 42	\$79,818,735 15
Cash Balance, July 1, 1949	8,645,794 15	
Cash Balance, June 30, 1950		7,427,988 42
Total Highway Fund	<u>\$87,246,723 57</u>	<u>\$87,246,723 57</u>

Fund Balance

Cash Balance (as shown)	\$ 7,427,988 42
Investment Securities	17,000,000 00
Due from Federal Government	6,100,639 42
	<u>\$30,528,627 84</u>

Less:

Reserve for Liabilities	\$ 2,404,957 48	
Reserve for Balance Forward	33,756,057 20	36,161,014 68
Deficit, June 30, 1950		<u>\$5,632,386 84</u>

Attention is called to the fact that although this statement shows a deficit of \$5,632,386.84 on June 30, 1950, consideration should be given to the fact that the amount to be received from the Federal Government is not fully reflected in this statement - should this amount of \$24,268,707.53 be shown instead of \$6,100,639.42, a surplus of \$18,636,320.69 would result, without taking into consideration the 1951 Appropriations.

LOWELL TEXTILE INSTITUTE

REPORT No. 51-13

Bookkeeping: It was again noted that no accounts are maintained in the general ledger for the respective special appropriations.

It was also noted that journal entries were not on the standard journal entry forms and the postings in the general ledger did not reflect the folio numbers in many instances. It is recommended that steps be taken to correct these conditions.

Tuition Costs: It is understood that the cost of instruction for each student is \$421.50 per year, yet more than 150 out-of-state students are required to pay only \$250.00 per year. The taxpayers of this Commonwealth necessarily pay the difference.

The following excerpts from the minutes of the meetings of the Board of Trustees on April 11, 1950, indicate the trustees' opinions on this matter:

"It was very evident that many of the Board felt that State Colleges should be a means of attaining low cost education and particularly in the light of industrial trends it was felt unwise to raise tuition rates at Lowell Textile Institute. The motion was made and duly seconded that the matter of tuition charges should be tabled indefinitely."

This opinion is undoubtedly proper insofar as residents of Massachusetts are concerned. However, out-of-state students should in all fairness aid in meeting the costs of maintaining this school.

The following statement shows rates charged for residents of states and rates charged to out-of-state residents for some textile institutions in states other than Massachusetts:

<u>School</u>	<u>In-state Tuition Fee</u>	<u>Out-of-state Tuition Fee</u>
Clemson College	\$ 75 00	\$250 00
Georgia Institute of Technology	150 00	400 00
Philadelphia Textile Institute	450 00	450 00
North Carolina State College	150 00	360 00
Rhode Island School of Design	500 00	500 00
Texas Technological College	50 00	300 00

Accounts Receivable: It was noted that income from chemistry and breakage charges was not posted through the Accounts Receivable Control Account. It is suggested that these items should be handled in compliance with instructions in the Comptroller's Bureau Accounting Manual.

Suspense Accounts Receivable: It was noted that there were thirteen accounts which have been outstanding for more than one year. It is recommended that the accounts be referred to the Attorney General for collection. The accounts should also be entered in a Suspense Accounts Receivable Account in accordance with instructions in the Comptroller's Bureau Accounting Manual.

Laundry Contract: A new contract was entered into by the Institute with a local laundry on a commission basis. The laundry is required to remit 15% of its gross monthly sales to the school. It was noted that there was received as income from this contract \$325.93 for the past school year.

Cafeteria Contract: A contract between the cafeteria concessionaire and the Institute required the concessionaire to remit 10% of the gross monthly sales to the school. The total amount received from the concession from September 1949 to June 1950 was \$5,869.49. This income was verified to original sources.

Income from Dormitories: It was noted that the original potential annual income from the two dormitories at the Institute was estimated to be \$60,990.00. However, the actual income for the school year 1949-1950 received from both students and transients as dormitory rent totaled only \$46,152.50. In this connection it was understood that several non-commuting students were residing in greater Lowell in locations other than the dormitories. It is recommended in the interests of greater income return that every effort be made by the administrative officials to promulgate such rules to bring the income from this source to a maximum.

Tuition Charges: It was noted that a student who is apparently a resident of Rhode Island was charged only \$150.00 tuition for two years. The tuition rate of out-of-state students is, however, \$250.00. It is recommended that this student be billed for the \$200.00 which was not paid.

Miscellaneous Income: A previous audit report stated:

"Income from vending machines is contributed to the Library Fund for the purpose of developing the library. This practice is questioned and it is suggested that the Comptroller furnish instructions for the future disposition of this income."

As no change was noted in this policy, attention is again called to it.

Athletic Fund: It is again suggested that the treasurer of the athletic fund be bonded for the custody of these funds.

Salary Augmentations: It was again noted that certain members of the faculty were receiving grants from private sources to augment salaries paid by the Commonwealth. These payments have been made under a plan for extra compensation to faculty members, which was approved by the Chairman of the Commission on Administration and Finance on September 29, 1947. This plan under which subsidies have been made states as follows:

- "1. Amounts may be awarded by the New England Textile Foundation directly to those faculty members recommended by the administration heads of Lowell Textile Institute, New Bedford Textile Institute, and the Bradford Durfee Technical Institute with the approval of their respective Boards of Trustees.
- "2. Awards may be made to faculty members in amounts such that the total salaries shall not exceed the maximum salaries of their respective classifications as established by the Division of Personnel.
- "3. Awards may also be made to faculty members for assignments and for services in addition to their full-time teaching schedule.
- "4. A report of the awards made under the above plan by the New England Textile Foundation will be filed with the Commission on Administration and Finance."

The previous audit recommended that the opinion of the Attorney General be sought as to the legality of this plan. There apparently has been no request made to the Attorney General by the Institute during the period under examination. There has, however, been some correspondence with the Commission on Administration and Finance in this same period, but the Commission has made no changes or revisions in the original plan of September 29, 1947.

The following employees are now receiving subsidies which bring their salaries above the maximum salaries of their respective classification as established by the Division of Personnel, as follows:

<u>Title</u>	<u>State Salary</u>	<u>Subsidy</u>	<u>Total</u>	<u>Established Maximum</u>	<u>Excess Received</u>
Dean	\$5,760 00	\$1,750 00	\$7,510 00	\$7,260 00	\$250 00

Assistant to President	\$4,260 00	\$ 600 00	\$4,860 00	\$4,620 00	\$250 00
Instructor	3,660 00	300 00	3,960 00	3,900 00	60 00
Instructor	3,660 00	300 00	3,960 00	3,900 00	60 00
Instructor	3,420 00	500 00	3,920 00	3,900 00	20 00
Instructor	3,540 00	500 00	4,040 00	3,900 00	140 00
Head Clerk	3,720 00	600 00	4,320 00	4,260 00	60 00

It is contended by the officials of the Institute that the excesses in salaries are justified under the third paragraph of the plan referred to. It is again recommended that this matter be referred to the Attorney General for interpretation.

Special Services: This item represents payments made by private sources for special work performed by employees of the Institute. Section 47G of Chapter 74 of the General Laws of Massachusetts (Tercentenary Edition) authorizes in substances:

1. That tests may be made in textiles and related work at the Institute.
2. That there shall be a fee charged for a sum not less than the actual cost plus a reasonable amount for overhead expenses.
3. No tests may be conducted which will interfere with the regular, efficient and proper exercise of the functions of said institute.

The Institute charges the organization requesting special services the cost of the time the instructors spend in the work plus 10% if no power and equipment is used, or 20% if power and machinery are used. On projects of lengthy duration a flat \$50.00 per month overhead charge is made.

From August 31, 1949 to August 31, 1950, \$13,220.67 was received by the Institute for these special services from which employees received \$11,021.19 and the Commonwealth received as income only \$2,199.48. There were thirty-three employees who received compensation from this source ranging from a high of \$1,525.50 to a low of \$9.00.

METROPOLITAN DISTRICT COMMISSION

REPORT No. 51-14

Bid and Specification Deposits: In this connection it was noted that the list of open items exceeded the cash in bank in the amount of \$22.00.

This difference was caused because refunds were made to four companies for plans and specifications returned after the original deposits had been "forfeited" to the State Treasurer.

It is recommended that the usual "Refund of Receipts" voucher be used to obtain the money from the State Treasurer before making refunds from the Bid and Specification bank Account in instances where the deposit has been "forfeited".

Accounts Receivable: Included in the accounts receivable (Account 8603-400) are two accounts, the Nantasket Hotel and the Trivoli Shelter, both at Nantasket Beach, which have been outstanding for some time. It is suggested that more strenuous efforts should be made to see that the terms of the leases are complied with.

In connection with the Hotel Nantasket it was noted that the cost of repairs and renewals to the premises together with the maintenance costs of the property far exceed the income received for rental.

Contracts: It was noted that one contract of more than \$1,000.00 was not protected by the usual performance bond. Inasmuch as the contract has been completed and accepted by the Commission, no action was taken on the bond.

There were also listed three instances where contracts were awarded to other than the lowest bidders. Contract 618 was awarded to the second low bidder at \$11,728.75 because the low bidder of \$11,300.00 apparently did not meet the requirements outlined in the bid specification. Contract 173 in the Water Division was awarded to the second lowest bidder at \$152,655.00 because the low bidder of \$146,023.00 was indicated as a new company who had neither the equipment nor the experience necessary to complete the work. Contract 166 in the Water Division was awarded to second lowest bidder at \$10,317.00 because the low bidder of \$8,470.00 withdrew his bid after a discussion of his qualifications.

Privileges and Concessions: Chapter 509, Acts of 1949, authorized the Metropolitan District Commission to take over control of certain beaches and parkways in South Boston as part of its Parks system. Included were certain buildings with concession privileges.

New leases were arranged and are now in effect between the concessionaire and the Commission.

Trust Funds: There were no disbursements from trust funds during the period under examination.

MILITARY DIVISION OF THE EXECUTIVE DEPARTMENT

REPORT No. 51-17

Rifle Range at Camp Curtis Guild - Purchase of Land for Rifle Range: Chapter 291 of the Acts of 1925, as amended by Chapter 558 of the Acts of 1949, provides for a State Rifle Range and establishes a basis for fees to be charged. The chapter reads in part as follows:

"The state quartermaster shall, subject to the approval of the adjutant general, establish a system of fees for the use of said state rifle range."

Parking Permit - State Land Adjoining the Commonwealth Armory: Chapter 627 of the Acts of 1947 authorized the Adjutant General, with the approval of the Governor - Commander-in-Chief - to permit the use, for motor vehicle purposes, at certain times, of the State land adjoining the Commonwealth Armory in the City of Boston. A permit was issued to the Commonwealth Avenue Parking, Inc., for \$2,000.00 per annum with option of renewal. This permit was signed by the Adjutant General and was approved by the Lieutenant-Governor, acting for the Governor.

A renewal of the permit was granted to run from July 8, 1948 to July 8, 1949 for \$2,000 00. This permit was canceled July 22, 1949 and was not renewed. In its place a permit was granted for the use of the space to the same company for \$30.00 a day for specified days. In addition a charge was made of \$1.00 a day for the use of electricity.

It would appear that the best interests of the Commonwealth would be served by awarding this permit to the highest bidder after inviting competitive bids.

Federal Participation Contracts: Service contracts between the Federal Government and the Commonwealth of Massachusetts, whereby the Commonwealth is reimbursed 75% of the operating costs of certain installations, are as follows:

<u>Contract Number</u>	<u>Location</u>	<u>Amount to be Reimbursed to Commonwealth by Federal Government</u>
W19-093-NG10	Aviation Facilities at Logan Airport	\$18,000 00
W19-093-NG17	Barnes Field, Westfield	18,000 00
W19-093-NG23	Curtis Guild Rifle Range at Wakefield	13,500 00
W19-093-NG24	Camp Edwards, Falmouth	4,500 00
W19-093-NG11	Commonwealth Armory, 925 Commonwealth Avenue, Boston (151st Aircraft Control and Warning Group)	3,750 00
W19-093-NG16	Commonwealth Depot and Motor Park at Natick	30,000 00
W19-093-NG22	Fort Devens Airfield at Ayer	4,500 00
W19-093-NG18	Commonwealth Maintenance Depot, Whittemore Center at Ayer	11,062 50
W19-093-NG21	601st Signal Light Construction Company at Worcester	3,750 00
W19-093-NG19	Commonwealth Armory at Boston (181st Engineers Aviation Company)	3,750 00

SECRETARY OF THE COMMONWEALTH

GENERAL DEPARTMENT

REPORT No. 51-18

General Court Manuals: Previous audit reports commented on the method of recording the control of the General Court Manuals in the stock ledger. Only the estimated quantity available for sale was entered and this quantity was subject to revision from time to time

depending on the number of copies requested for free distribution.

It was noted in connection with the current examination that the stock ledger balance now properly reflects the total number of these manuals on hand and also includes those available for free distribution.

As there has been no new printing of the General Court Manual since the 1949-1950 issue the following recommendation which was in the previous audit report is repeated:

" that all printed copies be taken into stock and recorded as such in the stock ledger which provides for both free issues and sold copies. "

Stock Ledger in the Public Document Division: It was again noted that no entry is made in the stock ledger kept in this division for charge sales until the cash is actually received. As a result the stock ledger balance does not reflect the true inventory.

The comment in this regard included in the previous audit report that all sales and consignment shipments be recorded in the stock ledger at the time the sale or shipment is made, is therefore, repeated.

Sale of Surplus Volumes of Massachusetts Reports: Chapter 57 of the Resolves of 1950 authorizes the sale of the surplus volumes of the Massachusetts Reports stored in the office of the State Secretary at prices below those presently fixed. A board, composed of the Attorney General, the Reporter of Decisions of the Supreme Judicial Court, the State Secretary, and a member of the Commission on Administration and Finance to be designated by its Chairman was empowered to fix the price at which these surplus volumes could be sold. As of the date of audit no copies had been sold at a reduced price, nor had the board yet determined a price at which these volumes should be sold.

General Cash Book, Certain Unrecorded Items of Cash Received: It was noted that current year refunds of expenditures and advance money received were not included in the main section of the general cash book but were recorded only on the last page of the cash book where they served only as a memorandum of special deposits with the State Treasurer.

It is suggested that current and prior year refunds and advances be recorded chronologically in separate columns in the general cash book.

Archives Division - General: The previous report stated:

"It was also noted that there is no adequate and complete record of Accounts Receivable in this division. In order to get a listing of Accounts Receivable under the present system a detailed verification of all the sales slips issued is necessary. It is suggested that an Accounts Receivable ledger be installed."

Upon initiating this audit it was found that this recommendation had been ignored, and therefore, although the work was outside the usual scope of our activities, in order to protect the interests of the Commonwealth we have expended considerable time in establishing these accounts.

We have found that the total accounts receivable on October 6, 1950 amounted to \$2,254.30 and of this amount \$1,489.95 is owed the Commonwealth by the former employee of the Archives Division. A complete detailed history of these accounts has been supplied to the Secretary of State.

Vital Statistics: The previous audit report called attention to the existence of a private contract, between the Secretary of the Commonwealth and the Federal Government National Office of Vital Statistics. Under the terms of this contract the Secretary furnished the Federal Government with certain vital statistics reports. These reports were prepared from state records by non-state employees who were engaged for this purpose by the Secretary. All monies received from the Federal Government under this contract were handled by the Secretary as a private account and therefore they were not reflected in the records of the Department of the Secretary.

The previous audit report commented on the manner in which this matter was handled, and in this connection the Secretary requested an opinion of the Attorney General. On December 8, 1949 the opinion was submitted emphatically bearing out the contentions included in the previous audit report. An excerpt from this opinion of the Attorney General follows:

"It follows, therefore, that to permit a private contractor to examine the record of all births in the Commonwealth which are under the supervision of the

State Secretary, would involve a violation of G. L. (Ter. Ed.) c. 46 sec. 2A. Hence, the answer to the first question proposed is in the negative as to your entering into the contract in your individual capacity and in the affirmative as to entering into the contract in your official capacity. This would seem to eliminate the necessity of answering the second question.

As to your third question, it is my opinion that all moneys received from the Federal Government, through the National Office of Vital Statistics, for the work performed in your department under the contract made by you in your official capacity as State Secretary should be deposited as a whole with the Treasurer and Receiver-General of the Commonwealth, and payments made therefrom only in the ordinary and usual course of transacting public business.

The effect of this opinion, however, is not to deprive the National Office of Vital Statistics of valuable statistical and public health reports. It would appear that ample authority is conferred by G. L. (Ter. Ed.) c. 262, sec. 36 and 37, upon the State Secretary acting in his official capacity to furnish the required information at the rate paid by the Federal Government.

Very truly yours,

s/ Francis E. Kelly
Attorney General

The Secretary, however, chose to ignore the opinion of the Attorney General, and on March 2, 1950, he requested of the Federal Security Agency, that his contract be terminated, and this was apparently accomplished as of March 16, 1950. It was also noted that on March 2, 1950, in a separate letter to the Federal Security Agency, he certified that a third party, who is not a State employee, and who is employed in his private office, had been granted by him the access to the original State records of births, deaths, and stillbirths, for the purpose of furnishing copies to the United States Health Service. This third party, since March 16, 1950, has the contract with the Federal Government for furnishing these records of vital statistics. It is obvious, of course, that this arrangement is simply a subterfuge, as persons who are non-state employees are permitted access to certain records of the Vital Statistics division despite the aforementioned opinion of the Attorney General to the contrary.

It is again suggested that this contract be executed through the Secretary of the Commonwealth in his official capacity.

During the period October 31, 1949 to October 24, 1950 a total of \$4,277.12 was received by the Secretary and his successor to the contract. Disbursements during this period amounted to \$4,765.94. The balance in the fund as of October 24, 1950 was as follows:

Cash in Bank	\$ 418 52
Due from National Office of Vital Statistics	1,521 99
Total	<u>\$1,940 51</u>

MONSON STATE HOSPITAL

REPORT No. 51-20

Accounts Receivable: There is an old outstanding account of \$346.26 due from sale of scrap. It is recommended that this account be turned over to the Attorney General for disposition.

Repairs and Renewals: The previous audit report commented upon materials being on hand for certain repairs and renewals projects which were not reflected in the Materials and Supplies Control Account.

The Superintendent of this Hospital advised that funds have been requested in the Maintenance Appropriation for the 1952 fiscal year to complete the projects for which these items were originally purchased..

Materials and Supplies: Materials valued at \$33,630.62 were inventoried on October 30, 1950. Shortages of \$28.82 and overages \$62.18 were noted. Adjustments recorded during this period under audit were as follows:

	<u>Overages</u>	<u>Shortages</u>
Food	\$1,007 96	\$1,890 92
General Supplies	130 26	167 26
Fuel	-	3,811 93
	<u>\$1,138 22</u>	<u>\$5,870 11</u>

Farm: A comparison of expenditures for operations and credits from farm operations for the fiscal years 1949 and 1950 is shown as follows:

	<u>1949</u>		<u>1950</u>
Appropriation Expenditures:			
Personal Services	\$24,558 39		\$30,626 87
Other Expenses	<u>23,621 44</u>	\$48,179 83	<u>27,308 61</u>
Credits:			
Farm Products to			
Storeroom	\$22,582 32		\$29,679 62
Farm Sales	<u>921 29</u>	<u>23,503 61</u>	<u>2,525 92</u>
Excess of Expenditures			<u>32,205 54</u>
over Farm Credits		<u>\$24,676 22</u>	<u>\$25,729 94</u>

The annual farm report for the year ending December 31, 1949 showed a loss of \$15,981.73, exclusive of inventories.

Spoilage of \$100.39 and shrinkage of \$115.86 as shown in the annual farm report, were not included in the indicated loss of \$15,981.73.

A tabulation of the 1949 monthly farm reports showed 366 pigs reported as births, 85 deaths - a mortality rate of 23.22%.

A further tabulation from the monthly farm reports for the period from January 1, 1950 to August 31, 1950 indicated the following with reference to the swine mortality.

	<u>Total</u>	<u>Deaths</u>	<u>Mortality Rate</u>
Sows on Hand	45	18	40%
Pigs - Births	<u>391</u>	<u>173</u>	<u>44.2%</u>
Total	<u>436</u>	<u>191</u>	<u>43.8%</u>

Patients' Funds: There was \$25.60 of funds of deceased patients and \$111.24 of funds of discharged patients on hand September 1, 1950.

There were also United States Savings Bonds with a principal value of \$500.00 and savings bankbooks with balances aggregating \$697.75 on hand September 1, 1950.

Nurses' Training School Fund: Attention has been called to this fund in previous audit reports which recommended that this fund revert to the State Treasurer. In this connection an opinion was requested of the Attorney General under date of March 3, 1943, with reference to the disposition of this fund. The Attorney General's opinion reads in part:

" . . . it appears that the fund in question should not be turned over to the State Treasurer, nor should it be applied at the present time to any particular use until such time as a judicial decree has been rendered with respect to its application."

During the period under examination the only activity in this account was the receipt of interest on the savings account.

The balance in this fund was \$1,213.16 on September 1, 1950.

DEPARTMENT OF PUBLIC HEALTH

GENERAL DEPARTMENT

REPORT No. 51-21

Checks Held in the Accounting Office: It was noted that there were three items of cash being held in the Accounting Office on September 11, 1950 awaiting further information be-

fore the entries could be completed. These items included:

- a. Check dated August 29, 1950, \$10.00, license for Nursing Home.
- b. Check dated August 23, 1950, \$18.00, refund on empty drum returned.
- c. Check dated March 25, 1947, \$11.25, drawn on United States Treasury Department, received from City of Boston, September 1950. This check was returned to the United States Government Printing Office by the Department of Public Health requesting a new check, as Government checks are good for 10 years. It was returned and will be deposited in the usual manner.

It is suggested that all items of cash should be deposited. If later it develops a refund is necessary it should be returned through the channels provided.

Income - Hospital License: In connection with the reconciliation of income from serially numbered hospital licenses, it was noted that this department keeps no accurate permanent record of the serially numbered licenses issued to hospitals. It was also noted that approximately twenty-five percent of the hospitals are operating under provisional approval, which makes it virtually impossible to accurately reconcile income from this source.

It is suggested that the Comptroller's Bureau be consulted for assistance in installing the necessary records for the control of this type of income.

Financial Report - Cash Statement: The cash statement section of the financial reports which are prepared monthly includes the cash detail of both the Federal and State accounts. In view of the fact that the Department now maintains separate bank accounts and cash books, it is suggested that this cash statement be divided into two sections.

Inventories: In this connection the previous audit report stated:

"The department now has on file in the office of fiscal management an individual inventory card for each piece of equipment owned by the department. These inventory cards show considerable detail, including values, and were compiled in the several divisions of the department. It is understood that the department hopes to set up controls over these inventory records."

The situation remained the same on the date of this audit. The previous audit report stated:

"The biologic laboratory at Jamaica Plain was visited and it was noted that a considerable stock of expendable items was being carried in a storeroom and that for each item there was a stock card kept in the office of the laboratory, but there was no record showing the total value of the stock."

It was noted that the total value of the inventory carried at the Biologic Laboratories has been determined, and a schedule prepared by the department cost accountant listed a total value of stock on hand as of June 30, 1950 as \$34,283.08. The inventory cost of supplies as of June 30, 1950 submitted by the acting director is as follows:

DIVISION OF BIOLOGIC LABORATORIES

Inventory Cost of Supplies as of June 30, 1950

1. Chemicals, Drugs and Media	\$ 5,430 14
2. Filters and Filter Supplies	1,871 28
3. Glassware	11,392 35
4. Rubber Goods, Stoppers, and Closures	6,051 39
5. Instruments and Surgical Supplies	2,096 83
6. Hardware and Household Supplies	1,083 78
7. Office Supplies and Printed Material	2,687 71
8. Shipping Containers and Postage	3,449 70
9. Miscellaneous	219 90
Total Cost of Inventory	<u>\$34,283 08</u>

It was again noted, however, that the control account suggested in the previous audit reports has not yet been set up in the general ledger, consequently attention is again called

to this matter.

District Offices: There are eight district offices under the jurisdiction of the department located in the following communities:

<u>District No.</u>	<u>Area</u>	<u>Community</u>
1	Southeastern	New Bedford
2	South Metropolitan	Quincy
3	North Metropolitan	Commonwealth Avenue Boston
4	Northeastern	Wakefield
5	South Central	Worcester
6	North Central	Fitchburg
7	Connecticut Valley	Amherst
8	Berkshire	Pittsfield

Each district office was visited in connection with this examination. License fees covering application for Nursing or Convalescent Homes or for Boarding Homes for the Aged, were found on hand at six of the eight offices visited. Cash totaling \$140.00 consisting of checks and United States Postal Money Orders was also being held at six district offices awaiting clearance by local Boards of Health, the Department of Public Safety, local zoning authorities, or local fire chiefs.

It was noted that one check dated December 23, 1948 which was on hand when the previous examination was made, was still on hand. A check dated December 6, 1949 was also found awaiting fire and public safety approvals, and a United States Postal Money Order dated October 19, 1949 was also found undeposited. In this connection the previous audit report stated :

"Apparently there appears to be a misunderstanding as to the time when payment shall be made for the licenses. A list of instructions is included in the form issued by the Director of the Division of Hospitals. A copy of the form issued to the licensees follows:

COPY

THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC HEALTH

Room 72, 8 Beacon Street, Boston 8

To the Licensee:

Enclosed are certain forms pertaining to the licensing of your home. Please follow these instructions carefully.

1. Fill out application for license in duplicate. Keep one copy. Return the other to the district health officer.
2. Forward the four copies of the board of health certificate of approval to your local board of health. They will keep one copy for their files, return one copy to you which you are to keep, and they will forward two copies to your district health officer.
3. It is necessary for you to request on the enclosed form an inspection of your premises by the inspector, Division of Inspection, Department of Public Safety who is assigned to your district.
4. In addition, there are forms to mail to your local wire inspector, zoning authority, and fire chief. These reports from the local wire inspector, fire chief and zoning authority should be returned to you.

All these forms properly filled out together with your check or money

order for ten dollars payable to the Commonwealth of Massachusetts, must be sent to

_____, M.D., District Health Officer

_____, Mass.

before your application can be considered.

Very truly yours,

RICHARD P. MacKNIGHT, M.D.
Director
Division of Hospitals

RPM:njc
Enclosures

Agreement with American Red Cross: During the fiscal year ending June 30, 1950, the agreement between the Department of Public Health and the American Red Cross was on a reimbursement basis, rather than on an advance cash basis. Reimbursements were made during the period and recorded as income as follows:

December 28, 1949	\$ 49,947 23
March 22, 1950	55,833 40
June 29, 1950	70,045 17
August 21, 1950	38,224 73
	<u>\$214,050 53</u>

SOLDIERS' HOME IN CHELSEA

REPORT No. 51-22

Appropriations: State appropriations made to this hospital are derived from the Veterans' Service Fund. Under Public Law 531 of the 80th Congress \$500.00 per patient per year is now available to the institution from the Federal Government. After June 30, 1951, however, only \$300.00 per patient per-year will be available from this source.

In prior years the money received from the Federal Government was added to the Appropriation Account, and allotted in the regular manner. Beginning with the 1948 - 1949 fiscal year, the Commonwealth made appropriations to the hospital, and these appropriations represented the total amount available to the hospital for the fiscal year. The money received from the Federal Government was recorded as income to the Veterans' Service Fund.

Allotment Expenditure Control Register: It was noted that the requisitions and purchase orders are not being recorded in the allotment expenditure control register. This is contrary to the instructions in the Comptroller's Accounting Manual and it is suggested that immediate correction be arranged.

Accounts Receivable Ledger: It was also noted that there is still no accounts receivable control ledger being maintained. The Comptroller's Accounting Manual includes instructions for the handling of these accounts, and it is, therefore, suggested that this folio be forthwith opened.

Financial Reports: An examination of the institution's monthly financial reports indicate that the monthly reconciliation of its records with the Comptroller's Bureau daily statements of transactions is not being made. This reconciliation is essential to proper financial control and should be currently made.

Bonding Employees: The previous audit report stated as follows:

"It was noted that a head clerk who is the acting treasurer of this institution is the only employee bonded. It is recommended that all employees who handle cash be bonded."

As this situation remains unchanged it is again suggested that all employees handling cash be bonded.

Legacy Fund: Gains or losses on sales of securities are credited or charged to an account called Income on Securities on the institution's general ledger, whereas the Old Colony Trust Company, the custodian of the account, handles these transactions directly through the securities principal account.

Inasmuch as the policy of the trustees is to use only the direct income on securities, that is, interest and dividends, and permits the custodian to use any principal gains for reinvestment purposes, it is suggested that adjustments be made bringing the institutions accounting procedure into agreement with the accounting procedure followed by the custodian of the funds.

It is further suggested that the Income on Securities Account be used only to record actual income from securities, that is, interest and dividends, etc., and any other income such as that derived from the sale of equipment originally purchased from the fund and other miscellaneous items of receipts be recorded in separate accounts in the general ledger.

Small Donations Fund - Savings Account: The previous audit report stated as follows:

"On the date of audit there was a cash balance in this Small Donations Fund totaling \$30,192.99. This cash was held as follows:

Cash in Office		\$ 256 74
Cash in Banks:		
Chelsea Trust Company -		
Savings Account	\$29,785 76	
National Shawmut Bank -		
Commercial Account	150 49	29,936 25
		<u>\$30,192 99</u>

"It was noted that interest credited on the savings balance at the rate of 1% per annum is only credited on the first \$5,000.00 of the balance. This arrangement is in compliance with banking regulations. It is, therefore, advised that several accounts be opened in local banks with balances of approximately \$5,000.00 each so that the full amount of bank interest may be properly credited."

It was noted that no change has been made in the procedure of depositing these accounts.

In this connection it was also noted that the cash on hand as of the date of the current audit was as follows:

Cash in Office		\$ 797 87
Cash in Bank:		
National Shawmut Bank, Boston:		
Savings Account	\$18,406 57	
Checking Account	1,348 25	19,754 82
		<u>\$20,552 69</u>

It is, therefore, again suggested that steps be taken to open several savings accounts so that the full amount of interest may be earned.

Members' Personal Funds: On date of audit there was a cash balance in the Members' Personal Funds totaling \$43,441.72, as follows:

Cash in Office		\$ 1,307 85
Cash in Banks:		
National Shawmut Bank, Boston:		
Checking Account	\$17,133 87	
Lincoln National Bank, Chelsea:		
Savings Account	25,000 00	42,133 87
		<u>\$43,441 72</u>

Attention is called to the balance in the National Shawmut Bank, Boston, which is a

checking account and earns no interest.

It is, therefore, suggested that this account be reduced to an amount that is necessary to meet only immediate needs and the remainder be deposited in savings accounts which will earn interest.

Deceased Members' Funds: Included in Members' Personal Funds on the date of audit was the amount of \$786.97 representing funds of deceased members. While the audit was in process, \$353.05 of this amount was properly distributed. It is understood that steps are being taken to dispose of the remaining \$433.92.

Canteen: The canteen at this institution is privately owned and operated. No rent is paid for the space occupied by this concession and no audit was made of its records. In this connection it was noted that a monthly donation is being made by the canteen operator to the "Donation Account" of the institution.

In view of the substantial investment made by the Commonwealth in equipping the canteen in the new hospital, it is suggested that a study be made to determine whether this new canteen shall be privately operated or whether all profits accruing shall be expended for the benefit of patients.

LAKEVILLE STATE SANATORIUM

REPORT No. 51-23

Board Rate for Crippled Children: Effective May 1, 1949, for families who could not pay the established minimum rate of \$14.00 per week, the cost of treatment was assumed by the Department of Public Health. Under the policy now in effect the rate is based entirely on the family's ability to pay. The rate is determined by an institution social worker after investigating the financial status of the family concerned.

Farm Losses: The farm report indicated a loss of \$10,036.80 for the year 1949, as compared with the farm loss of \$13,909.40 reported for the year 1948. This loss was attributed, namely, to the high cost of grain and other supplies, together with the excessively low prices for farm products. It was also noted that the farm was also operating at approximately 50% of its normal capacity.

Farm Records: Several clerical errors were noted in the 1949 farm records. For instance, the ending livestock inventory was overstated by \$1,272.50. The errors were called to the attention of the proper institution personnel for correction.

Room Register: In order to provide a better control on rooms rented to employees, it is suggested that a room register be installed and maintained.

School Lunch Program Fund: This fund was established with funds received from the Federal Government for the purchase of equipment used in preparing and serving of food.

BOARD OF REGISTRATION OF ARCHITECTS

REPORT No. 51-24

Applications on File: Section 44C of Chapter 696 of the Acts of 1941 states in part as follows:

"The board may make such rules or by-laws, not inconsistent with law, as it may deem necessary in the performance of its duties."

It is the present policy of the Board to allow an applicant who has failed the written examination to take another examination without payment of an additional application fee. However, if the applicant fails a second time a new fee of \$25.00 must be paid before another written examination may be taken. Once an applicant has taken either an oral or written examination, or been interviewed, the fee is not returnable.

There are now in the files 178 pending applications. These comprise 89 applicants entitled to a second examination, and 89 applicants either awaiting an appearance before the board or whose applications have been disapproved for one reason or another. In the latter case the Board notifies the applicant of such disapproval but retains the application in the pending file until the applicant requests a return of the fee. Upon receipt of such a request the fee is refunded by the Board.

The previous audit report "recommended that once an application is finally disapproved that the fee be returned immediately to the applicant without awaiting a formal request."

This recommendation is once again suggested as a means of disposing of many of the pending items.

Fifty-one of the applications now pending have been in the files since 1945. Until they are reviewed and disposed of a major reduction in the pending file cannot be expected.

It is suggested that the Board adopt a procedure to eliminate items which have been pending in excess of a certain predetermined number of years.

FOXBOROUGH STATE HOSPITAL

REPORT No. 51-25

Accounts Receivable Ledger: It was noted that an invoice for squash to the Pondville State Hospital in February 1949 was charged 1¢ per pound where as the proper rate should have been 2¢ per pound.

Maintenance Deductions for Board: It was determined to be impossible to properly audit income from this source which totaled \$27,547.00 for the audit period. A card file of the rooms and occupant is kept but the dates of the occupancy are not indicated. It is suggested that the Comptroller install the necessary records for the accounting of this income.

STATE RACING COMMISSION

REPORT No. 51-26

Unclaimed Pari-Mutuel Tickets: At the date of audit, the value of unpaid pari-mutuel tickets for the 1949 year was \$63,965.10. This amount, subject to change due to tickets being redeemed at a later date will be payable to the Commonwealth early in 1951. Checks totaling \$69,210.90 were received from the various associations early in 1950 covering the unpaid pari-mutuel tickets for the racing year 1948.

These unpaid tickets are under continuous audit by the commission's accountants until they are finally turned over to the Commonwealth.

Agricultural Purposes Fund: This fund originates in the receipts from commissions and breakage from racing at fairs and is provided for by Chapter 390 of the Acts of 1947 as amended by Chapter 319 of the Acts of 1948.

The amount of \$68,563.40 was received from fairs held in the 1950 year and has been credited to this fund.

Owner License Fee for Harness Horse Racing: It was noted that a new \$1.00 annual license fee for owners has now been established under the 1950 Rules of Harness Horse Racing.

DIVISION OF THE BLIND

REPORT No. 51-27

In this connection the previous report stated:

"Lowell Shop for the Blind: During the progress of the audit, it was found that there were variances in the income accounts of the Lowell Shop. In this connection it was noticed that the clerk acknowledged to have been responsible for the variances resigned as of September 23, 1949. Income totaling \$659.50, representing practically all the differences was turned over to the Division by the former clerk's family on October 26, 1949. It is understood that the balance of the discrepancy in the amount of \$50.02 will be paid by them within a short time."

It was noted that the balance of \$50.02 was received in the Boston office on January 31, 1950, and the total of \$709.52 was turned over to the State Treasurer on that date. The partial restitution of \$659.50 which was received on October 26, 1949, had been held in the Boston office until the receipt of the balance due under instructions from the Comptroller's Bureau.

Stock Ledger Balances - Finished Goods - Cambridge Industries: A physical inventory of finished goods at the Cambridge Industries was taken on June 30, 1950. A comparison of the unit balances, as indicated by the physical inventory, with the unit balances as shown by the stock ledger sheets on June 30, 1950 indicated shortages of 149 5/12 dozens of brooms having a sales value of approximately \$1,450.00.

It is suggested that an effort be made to correct this situation.

Selling Prices of Manufactured Articles: The report of the previous audit recommended that if possible a list of the selling prices of all articles handled by the division be approved by the director and be kept on file in the main office. It is understood that efforts are now being made to standardize prices and establish such an approved list.

Accounts Receivable - Overdue Accounts: There are outstanding overdue accounts receivable amounting to \$3,694.38 on the date of audit. These accounts should be reviewed and then turned over to the Attorney General for collection. These accounts which follow by year of charge should also be transferred to the "Accounts Receivable Suspense Account":

	1949	1948	1947	1946 and prior	Totals
Cambridge Industries	\$353 40	\$ 663 50	\$140 35	\$1,087 45	\$2,244 70
Piano and Mattress	253 69	535 04	51 50	29 00	869 23
Woolson House Industries	88 01	217 86	73 65	93 58	473 10
Salesroom	22 50	6 00	8 74	22 06	59 30
Fall River Shop	8 00	-	-	-	8 00
Lowell Shop	8 60	5 70	-	-	14 30
Pittsfield Shop	25 75	-	-	-	25 75
Worcester Shop	-	-	-	-	-
	<u>\$759 95</u>	<u>\$1,428 10</u>	<u>\$274 24</u>	<u>\$1,232 09</u>	<u>\$3,694 38</u>

Finished Goods Stock Ledger Control - Cambridge Industries: In this connection the previous audit report stated:

"In several of the preceding audit reports it has been recommended that the Comptroller's Bureau set up a control account for finished goods in the Cambridge Industries. As this suggestion failed to receive the Comptroller's approval, attention is again called to it."

It is understood that upon instruction from the Comptroller's Bureau the Materials and Supplies account was discontinued for both Finished Goods and Materials and Supplies.

Bank Accounts - General: The previous audit reported stated:

"It was noted that the local shop bank accounts are still in the name of Helen F. O'Leary, a former principal bookkeeper. It is advised that these accounts be reopened in the name of the present principal bookkeeper."

In this connection it was noted that the bank accounts are now in the name of the department and the division and checks may be signed by either the Director or the Principal Bookkeeper.

Federal Participation - General Administration: In accordance with the approved plan of Federal participation in the expenses for "General Administration, Aid to the Blind", one half of 5% of the salaries of the personnel in the bookkeeping department is reimbursed by the Federal Government. Of the expenses for rent and light 21.02% is paid by the Federal Government. One half of 50% of the telephone expenses is also reimbursed by the Federal Agency involved. The salaries of other members of the personnel are reimbursed on the basis of 50% of the following percentages:

Director	22%
Secretary to the Director	22%
Telephone Operator	50%
Senior Workers with the Blind (6)	100%
Guides to Blind Workers (3)	100%
Senior Statistical Clerk	100%
Junior Clerk and Stenographer (2)	100%
Junior Clerk and Typist	10%
Worker with the Blind	15%

Jean M. LeBrun Fund: Income from the investment of this fund was \$50.00 for the

audit period and expenses totaled \$53.30 leaving a balance of income in the fund of \$27.19 on October 2, 1950. This fund is administered by the Director for higher education of blind students.

Michael F. McCarthy Fund - Pittsfield Shop Fund: The Pittsfield Shop is beneficiary under the will of Michael F. McCarthy. The Attorney General has ruled that the income derived from this source must be used for the benefit of the Pittsfield Shop. Income from the fund was \$1,000.00 for the audit period and no expenditures were made during that time, leaving a balance of \$5,145.15 in the account as of the date of audit.

COMMISSION ON ADMINISTRATION AND FINANCE

REPORT No. 51-28

Allotment System: The previous audit report stated:

"It was noted that during the current fiscal year funds are being allotted on a four month basis rather than the three month basis formerly used. This is obviously an indication that an attempt is being made to physically improve the operation of the allotment system by decreasing the number of transactions handled within the twelve month period."

The Budget Bureau has now returned again to a three month allotment basis for the 1951 fiscal year. This procedure was occasioned by Chapter 580, Section 11, of the Acts of 1950 which reads as follows:

"Notwithstanding any other provisions of law, the commission on administration and finance is hereby directed to limit the total expenditures from sums appropriated in section two of this act for ordinary maintenance, during the period from July first, nineteen hundred and fifty to December thirty-first, nineteen hundred and fifty, to one half the total amount available in each of said appropriations for the fiscal year nineteen hundred and fifty-one. Amounts to be expended for special services or contracts certified by the commission on administration and finance as essential may be exempted from the provisions of this section.

The comptroller is hereby directed to file with the joint committee on ways and means as soon as may be after January first, nineteen hundred and fifty-one, a statement showing the total expenditures during said six months period from each of the appropriation accounts of the commonwealth and the unexpended balance remaining in each of said accounts on December thirty-first, nineteen hundred and fifty.

However, beginning December first, nineteen hundred and fifty, obligations may be incurred against said appropriations for items to be delivered or for services to be rendered on and after January first, nineteen hundred and fifty-one, and such obligations shall be charged against the appropriations available for the period beginning January first, nineteen hundred and fifty-one.

The sums appropriated for ordinary maintenance, with the exceptions provided in this section, shall not be available for allotment by the governor for the last three months of the fiscal year, under the provisions of chapter twenty-nine of the general laws, until made available by a joint order of the legislature subsequent to the filing of said statement by the comptroller with the joint committee on ways and means."

Previous audit reports have covered, in considerable detail, operations of the present allotment system and have pointed out that the system is both expensive to maintain and ineffective in its operations. Maintenance of the allotment system adds substantially to the work of the budget bureau, it requires the operation of additional ledgers by the Comptroller's Bureau and every spending agency of the Commonwealth. In addition previous audit reports have demonstrated that allotment processes have not only failed signally to reduce deficits but that deficits have actually increased since its adoption.

While some recent improvement has been noted in the processing of allotments, there still has been no overall betterment of financial controls and after a trial period of nearly ten years, the entire system should be dropped and an immediate return made to the really effective controls that existed prior to the adoption of the allotment system.

Encumbrance System: The previous audit report stated as follows:

"The previous report pointed out that under Chapter 636 of the Acts of 1947 which revised Section 29 of Chapter 29 of the General Laws, the Comptroller was obviously required to maintain the present system of encumbrances since that amendment states that the Comptroller:

' . . . shall refuse to permit a disbursement or the incurring of an obligation if funds . . . sufficient to cover such disbursements or obligation . . . are not available . . . '

"Maintenance of the encumbrance system has added expensive red tape to operations of the financial controls of the Commonwealth and has not provided any additional control. In addition it has placed responsibilities upon the Comptroller that belong with the head of each spending agency."

It is the feeling of this department that the Comptroller should be allowed some discretionary power with regard to encumbrance procedures and for that reason it is recommended that Chapter 636 of the Acts of 1947 be amended by striking out that section which requires the Comptroller to maintain control over the incurring of obligations.

Comptroller's Annual Report - House Bill 500: In checking this report it was noted that Statement X, which bears the title "Highway Fund, Detail of Cash Receipts, Expenditures and Balance for Fiscal Year ended June 30, 1950", includes an item "Due from Federal Government \$6,100,639.42." In this connection attention is called to the report of the special examination, made recently at the request of the Budget Commissioner by the Department of the State Auditor, which relates to the entire subject of Federal Aid for Highways, and in which it was indicated that the real amount due from the Federal Government on June 30, 1950 was actually \$24,268,707.53.

This same report includes a statement which purports to indicate the "Net Contingent Debt of the Commonwealth as of June 30, 1950." It was noted, however, that this schedule - Statement II - 2b- simply alludes to the fact that the Commonwealth has guaranteed certain notes and bonds of the various local housing authorities. It would seem that this particular statement should indicate the actual amount of such items which on that date appeared to be \$127,942,000.00.

Deficiencies: The previous audit report commented in some detail on deficiencies existing as of June 30, 1949, indicating the variety of items which were categorically included. In this connection it was noted that at the end of the 1950 fiscal year this problem was not so serious because of the increases and the changes in the vernacular in the acts appropriating funds for the relief of these overdrafts, etc. As a matter of record it is stated that these items as of June 30, 1949 totalled \$133,177.69, while the comparable items as of June 30, 1950 totalled only \$15,686.61 as of approximately the same time after the close of the respective fiscal years.

UNIVERSITY OF MASSACHUSETTS AT FORT DEVENS

REPORT No. 51-29

Loaned Federal Property: A report by the College's Procurement and Property Officer was submitted to the Commissioner and Purchasing Agent of the Commonwealth under date of August 19, 1949, which indicated that certain Federal property loaned to a concern doing business at the college had been lost or damaged in an amount totaling \$2,216.85. This amount was paid on October 21, 1949.

Closing of the College: It is understood that the buildings formerly used by the college have been turned back to the United States Government as of October 31, 1949. As of that date there were no more employees on the pay roll of the college. All financial records including accounts receivable are being maintained under the control of the State Purchasing Agent in the State House, and will be so handled until such time as all financial transactions have been consummated.

All accounts receivable in the amount of \$1,020.95 have been transferred to suspense accounts receivable account and placed in the hands of the Attorney General for collection.

The unexpended special appropriation balance of \$332,745.67 as of October 9, 1950 will revert to the General Fund on May 19, 1951 under Chapter 308 Acts of 1949.

GRAFTON STATE HOSPITAL

REPORT No. 51-30

Farm: The monthly animal census reports for the 1949 farm year were not available for auditing purposes.

The farm sales as shown by the farm report for the 1949 farm year are not in agreement with farm sales as shown by the financial records. It is suggested that a reconciliation of these accounts be made each month.

Canteen Accounts: General ledger accounts for the canteen financial transactions are not maintained. In this connection, it was noted that a letter from this institution to the Department of Mental Health dated January 30, 1950, requested that a complete accounting system for the canteen be installed in conformance with the Department of Mental Health Handbook, page 118, item 5, which states as follows:

"A system of accounts approved by the Comptroller shall be installed and supervised by the Department of Mental Health."

PUBLIC BUILDINGS COMMISSION

REPORT No. 51-31

General: The previous audit report included the following comment:

"Bookkeeping: As noted in the previous audit report, there was no general ledger in use at the Massachusetts Public Buildings Commission, nor have any bookkeeping records been installed by the Comptroller's Bureau as of date of audit. Records are kept for the information of the Commission of each project showing total payments made and balance of appropriation to date.

"The Commission has requested that the Comptroller's Bureau examine the above-mentioned records to determine whether or not they are sufficient to be maintained as a permanent record of the Commission."

In this connection the Comptroller's Bureau has examined the project records and indicated that it was not necessary to maintain them as permanent records. A general ledger for control purposes was also deemed unnecessary. However, to control personal services and general office expense records, an Allotment Expenditure Control Register was installed and is being currently maintained.

BOARD OF REGISTRATION OF HAIRDRESSERS

REPORT No. 51-32

Inactive Applications for Licenses: The examination of the applications for hairdressers' and operators' licenses indicated that certain fees had been paid for these licenses as far back as 1936 and that no action has been taken by the various applicants concerned with regard to taking the qualifying examinations for which these fees originally were paid. In order to avoid the possibility of retaining these applications in the files indefinitely, it is recommended that the Board of Hairdressers seek legislation requiring that action be taken by the applicants within a certain specified period, otherwise the fees paid would be forfeited.

Expenditures: It was noted that the expenditures of this board exceeded the income for the current audit period. This was due to the salary increases of employees, increases in travel allowances, and a decrease, both in the number of applications filed and in the renewals of personal licenses.

MILK CONTROL BOARD

REPORT No. 51-35

General: The basic purpose of the Dairy Bonding Law is to protect the financial interests of Massachusetts Milk producers in the event of certain contingencies. These bonds and their processing is now controlled by a section of the Department of Agriculture, namely, the Dairy Bonding Section, and comes directly under the Commissioner of Agriculture.

The Milk Control Board also was created primarily to protect the financial interests of certain Massachusetts milk producers, and among its functions the Board regulates and audits prices paid milk producers and is further responsible for the adequacy of the supply of fresh milk for consumers and dealers in the areas within the Commonwealth under its control.

In this connection the Milk Control Board audits the records of these producers and dealers and thereby satisfies itself insofar as possible with the following:

1. Conformity to price regulation and producer dealer contracts.

2. Satisfactory payments to producers when due.
3. Adequacy of bond.
4. Assessments.

These audits are timed to include all of the transactions of dealers and producers for an entire fiscal year.

The Dairy Bonding Section of the Department of Agriculture however, employs the following three individuals; a Senior Dairy Bonding Investigator, a Dairy Bonding Investigator and a Junior Clerk and Stenographer.

It will be noted that there are only two employees assigned to make investigations of milk plant operators so it is necessary for this section to rely on the financial report submitted by the Milk Plant Operators in March of each year for the preceding year to the Milk Control Board, and to the Federal Milk Control Agency for the information necessary to determine the adequacy of bond.

On the other hand the Milk Control Board on the date of this audit employed fifteen individuals in its auditing section as follows: one Supervising Inspector of milk records, three Senior Inspectors of milk records, ten Inspectors of milk records, and one Milk Control Investigator.

As nearly as could be determined the main purposes of the auditing section are to determine whether the milk dealers buying from Massachusetts producers are properly accounting and paying for milk purchased in accordance with the official orders of the Milk Control Board and includes the following functions:

1. Conformity to price regulations
2. Satisfactory payments to producers when due
3. Adequacy of bond protection
4. Taxes or assessments

These auditors physically inspect and verify all payments of the milk dealers to producers within their jurisdiction. Items in transit are verified in subsequent audits. Determination of the adequacy of a bond is wholly dependent upon payment to producers.

From the foregoing it is, of course, obvious, that sections of the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture have certain common purposes. This condition is covered by the common and duplicating laws and regulations which are indicated by Section 42H of Chapter 94 and Section 6 of Chapter 94A of the General Laws (Ter. Ed.). These laws have served to confuse the personnel administering them and also those milk dealers and milk plant operators for the benefit of whom the laws were originally put into effect.

In view of the common purposes and because of the interlocking and over-lapping laws, cooperation and coordination between these two State agencies would naturally be assumed. Unfortunately, this is not true. A review was made of approximately 25% of the memorandum records of bonds and secured notes on hand in the Milk Control Board's Office and at least 10% of these records were not in agreement with comparable records in the Department of Agriculture. The control accounts of the secured notes and surety bonds of the Dairy Bonding Section are kept on the books of the Milk Control Board, but it is meaningless since only increases or decreases representing net differences are journalized and posted without any detailed substantiating date. While this audit was in progress, however, these control accounts were transferred from the Milk Control Board to the Department of Agriculture in accordance with a letter of instructions from the Comptroller's Bureau dated November 14, 1950.

In view of the foregoing the following are suggested for study in order that better efficiency will prevail:

1. That the Milk Control Board assume all the functions of the Dairy Bonding Section.
2. That the Milk Control Board and the Dairy Bonding Section both come under the active control of the Department of Agriculture.
3. Administration and office procedure should be established where the functions of the Milk Control Board and the Bonding Section of the Department of Agriculture could be more closely coordinated so that the administration of the milk control laws would be more closely integrated.

Assessments: The audit reports for the past several years have discussed the fact that one of the more important financial activities of the Division of Milk Control is the

collection of monthly assessments.

These estimated unpaid assessments reported by the Division of Milk Control as of October 9, 1950 totaled \$8,348.42 as follows:

<u>No. of Dealers</u>	<u>No. of Months Owing</u>	<u>Estimated Amount Due</u>	<u>Percentage</u>
100	1	\$ 746 84	.09
66	2	841 10	.11
35	3	451 62	.05
19	4	283 64	.04
13	5	369 21	.04
7	6	99 05	.01
18	7 and over	2,772 42	.33
258		\$5,563 88	.67
29	Field Audits	2,784 54	.33
<u>287</u>		<u>\$8,348 42</u>	<u>100</u>

The foregoing table includes \$2,784.54 which was determined as a result of field audits and consists of relatively current items.

Verification notices were mailed to approximately 34% of these dealers concerned and only 42% of these notices were acknowledged and returned.

In this connection it is again suggested that Control Accounts Receivable be set up for the better handling and control of these items.

Bond Not Filed in Violation of Law: It was noted that since 1942 a certain dealer has not filed a bond as is required by law. The Bonding Section contends in this case that no bond is required since the relationship between the producer and dealer involved is that of a partnership. However, no copy of a partnership agreement is on file nor was there any indication of authority from the Commissioner of Agriculture to exempt this dealer from filing a bond.

Collateral to be Returned: It was noted that the total collateral on hand for the interests of inactive operators totalled \$4,020.89 on the date of audit and comprised the following:

<u>Type of Collateral</u>	<u>Value</u>
17 Bankbooks	\$2,815 72
2 Stocks	750 00
1 Insurance Policy	455 17
<u>20</u>	<u>\$4,020 89</u>

The foregoing total includes fourteen accounts which were in this category at the time of the previous audit in the aggregate amount of \$1,797.92. Some of these have been on hand since 1935.

Inasmuch as the Commonwealth apparently has no equity in these items it is again suggested that steps be taken to return this collateral and also the parties concerned should be notified of releases of assignments, etc.

Because of the lag of time often involved before returning collateral and notes of inactive accounts, it is again suggested that a control account for inactive accounts be carried in the General Ledger of the Department of Agriculture.

Unrecorded Note: A note for \$100.00 secured by land mortgage dated in 1939 was released to the maker on December 13, 1949, but was returned because of an unknown address to the Department of Agriculture. This note is recorded as returned to the maker. This notation should be corrected on the records.

Liquidation of Collateral: The collateral which is liquidated for distribution to both milk producers and poultry producers because of dealers going out of business is deposited in one bank account.

In order to facilitate the handling of these two functions in the Dairy Bonding Section of

the Department of Agriculture and for the purposes of better internal check and control, it is suggested that separate bank accounts be set up.

Ledger Records: The previous audit reports called attention to certain irregularities in bookkeeping as they remain unchanged. Attention is again called to the following:

- (1) Balances were not brought forward from year to year where collateral of some sort was being held on inactive accounts. Some of these accounts were several years old and in some instances ruled off although the collateral was still held and in control.
- (2) Numerous active accounts where the notes, collateral, etc., remained the same were not brought forward to the current year, and again some were ruled off as though closed.
- (3) Several entries had not been made to cover the notes or assignments of record due to the fact that adjustments were pending. It is felt that the amounts of record should have been entered and the adjustments made when the new notes, assignments or collateral were received.

It is also suggested that all accounts with any activity whatever, even though only holding collateral, should be shown as an open account in the ledger for audit and control purposes.

Arrearages: It was noted during the current audit period that twenty-five dealers were in arrears for payments to producers in the amount of \$20,662.80.

Eight of these dealers owing \$9,317.88 to producers are covered by sufficient bonds, the remaining seventeen owing \$11,343.92 are apparently not sufficiently covered by bonds, as follows:

Seventeen Dealers	\$11,343 39
Less:	
Amount of Bonds	<u>5,380 00</u>
Not Covered by Bonds	<u>\$5,963 92</u>

During progress of the audit information was received but not verified that \$7,223.11 of the foregoing was paid to the producers.

Reduction in Number of Employees: During this audit period the number of employees of this Division has been decreased from 71 to 42. This was occasioned by the additional number of milk marketing areas which were taken over by the Federal Milk Administrator. Five of these employees are on a special pay roll in accordance with Chapter 586 of the Acts of 1950, awaiting transfer.

Licenses Before the Board for Statute Violations: During this audit period there were 41 cases of violations of statutes for which licenses could have been revoked or applications for licenses denied. Thirty-one cases have been disposed of, as follows:

3 - Conditional Licenses Granted
4 - Granted Unconditionally
23 - Cases Involving License Revocations Charges Were Filed
<u>1 - Case Dismissed</u>
<u>31</u>

Thirty-three of the foregoing cases involved failure to file assessment returns and eight were for failure to pay producers as is required.

Milk Market Areas: The Milk Control Board has divided the Commonwealth into 19 General Marketing Areas. Four of these are now under the control of the Federal Milk Market Administrators. A fifth area, No. 11AB is controlled jointly by both State and Federal Agencies, but is administered by the Federal Agency only. Milk Marketing Area No. 18 (New Bedford) is administered by a Milk Control Board Order #G-18-208 as amended.

A test check was made of the audits performed by the field audit staff of the Milk Control Board, and the following is a summary of the cases reviewed in these twelve State controlled areas:

Number of Licensed Dealers in Areas		834
Classification:		
Producer Distributors	407	
Producer Dealer	139	
Intermediate Dealers	134	
Straight Dealers	154	834
Classification as to Licenses:		
\$5 00	648	
2 00	71	
50	114	
	833	
1 out of Business September 6, 1950	1	834
Classification as to Dealers Audited:		
No Audits Made	558	
Audited	276	834
Of those audited 68 of the 276 had insufficient bonds amounting to Approximately \$50,456.00		

Milk Market Area 18: Milk Market Area 18 is administered under the Milk Control Board Official Order No. G-18-208 as amended issued in 1940. The administrator is appointed by the Milk Control Board. This area differs from the other areas controlled by the Milk Control Board in that it is a market-wide pool which accounts for and pays for milk produced in this area. The membership of the pool is composed almost entirely of the members of the New Bedford Milk Producers Association, a producers co-operative bargaining association. It is a highly organized area and a homogeneous market because of the common interests of both producers and dealers. Except for the shortages during World War II, practically all milk sold in the area comes from within its borders. From 1934 to 1940 the area was administered under a Federal License. However, when the Federal Agency took into consideration that this was not a matter of interstate commerce, it ceased its control function. It is understood that it differs from other milk market areas of the State, as it is the only market-wide pool area under State control except those in the states of New York, California and Oregon. The area was set up as a market-wide pool because a substantial majority of the milk producers so petitioned the Milk Control Board.

The Milk Market Administrator representing the Milk Control Board acts as the Milk Marketing Agent representing the milk producers, and he is also the manager of the New Bedford Milk Producers Association. This individual is not compensated by the Commonwealth or the Milk Market Administrator, but he is paid for his services as a Milk Marketing Agent from funds derived from the State administered pool. The State Milk Control Board holds a bond paid for by producers protecting the producers whose funds are in his custody.

Milk Dealer Licenses: Prior to the date of this audit, it was the practice to prepare licenses for issue affixing to the license rubber stamp facsimile signatures of the members of the Board, before the board members actually voted approval of their issuance. This practice obviously created confusion when verifying the license inventory in connection with the audit.

During the progress of the audit, the Director of the Milk Control Board issued a directive changing this clerical procedure.

DEPARTMENT OF AGRICULTURE

GENERAL DEPARTMENT

REPORT No. 51-36

Outstanding Checks: It was noted that there were two checks drawn more than a year ago which are still outstanding in the State Bank Account. There were also two checks in the same category which are outstanding in the Mosquito Control Bank Account.

It is recommended that the banks be notified to stop payment on these checks, and the proceeds be forwarded to the State Treasurer, to be credited to the proper account.

Suspense Accounts Receivable: It was noted that two accounts which had been referred to the Attorney General for collection were not entered in the Suspense Accounts Receivable Account. It is recommended that the instructions in the Comptroller's Bureau Accounting

Manual be followed in this regard.

Poultry Surety Bonds: It was noted that there were \$581,200.00 of surety bonds on hand for Poultry Dealers. However, there was no account in the general ledger reflecting this activity. It is recommended that an account be set up to control these items.

Bonding of Milk Plant Operators: Section 1 of Chapter 791 of the Acts of 1950 states:

"For the purpose of consolidating the functions of the department of agriculture relating to the bonding of dealers under the provisions of chapter ninety-four of the General Laws the milk control board shall return to the commissioner of agriculture all records and information relative to the bonding of milk dealers."

This statute was approved on August 16, 1950 for immediate enactment as an emergency law. On the date of audit these bonds did not appear on the General Ledger of the Department of Agriculture but were still on the books of the Milk Control Board. It is recommended that full compliance with the statute be made immediately.

The bonding of milk dealers was audited in conjunction with the audit of the Division of Milk Control. Milk plant operators license fees formerly audited in conjunction with the Division of Milk Control were audited with the Department of Agriculture. All cash received for milk plant operators licenses are now recorded in the Department of Agriculture's cash book.

Liquidation of Surety Bonds: It was noted that the proceeds from the liquidation of both dairy and poultry bonds were recorded in the same bank account. It was further noted that no record of these liquidations is reflected in the General Ledger. It is recommended that separate bank accounts be maintained for each type of surety liquidation and that the General Ledger reflect all transactions of this nature.

WALTER E. FERNALD STATE SCHOOL

REPORT No. 51-37

Sales of Hides: No authorization could be found for the sale of animal hides to a firm located in the Brighton Abattoir. Apparently no bids were invited nor received for these items. All institution animals are slaughtered at the Abattoir and this probably accounts for the sales being made to this concern. It was understood that hide prices quoted during this audit period ranged from 13¢ to 19¢ per pound.

Farm Records: The animal census reports appeared to be in a confused condition. Manure charges and credits do not reconcile nor does the labor not on pay roll charges and credits.

It was further noted that grain in the amount of \$48.37 which was fed to the bulls was not charged on the project sheet of the annual report. The wagon expenses of \$25.76 did not appear either.

Sales of horses and cattle as shown on the farm ledger were not in reconciliation with the annual farm and the financial reports, as follows:

	<u>Farm Ledger</u>	<u>Annual Report</u>	<u>Financial Report</u>
Horses	2 \$ 30 00	2 \$ 2 00	-
Calves	41 838 41	39 873 16	-
Heifers	11 78 00	10 48 00	-
	<u>54 \$946 41</u>	<u>51 \$923 16</u>	<u>\$948 16</u>

The various farm control accounts in the general ledger did not agree with the annual farm report, as follows:

	<u>Farm Products to Storeroom</u>	<u>Production</u>	<u>Farm Products Used</u>	<u>Storage</u>
Farm Report	\$60,031 64	\$106,605 04	\$100,684 04	\$18,571 98
General Ledger				
Accounts	<u>60,061 22</u>	<u>106,614 04</u>	<u>100,692 95</u>	<u>18,572 07</u>
Variances	<u>\$29 58</u>	<u>\$9 00</u>	<u>\$8 91</u>	<u>\$ 09</u>

It was noted that the shrinkage and spoilage percentages appear to be much below what is considered normal by the Department Farm Co-Ordinator, as follows:

	<u>Annual Report</u>	<u>Considered Normal</u>
Beets	3 %	15%
Cabbage	1.9%	30%
Carrots	1.2%	15%
Onions	4.3%	10%
Parsnips	9 %	20%
Winter Squash	6.2%	25%
Turnips	1 %	10%

The analysis of milk distribution appears to be improperly handled. The daily variance ranges all the way from a shrinkage of 4,021 pounds to an increase of 561 pounds. It is apparent that more milk cannot be distributed than has been produced, yet on 52 days during the year this phenomenon exists. This shrinkage should always appear at a small constant amount.

From the foregoing it is evident that the handling of the farm accounts during this period was not done in a most efficient manner. This was obviously partly occasioned by the fact that five different junior clerks have handled these records during the current audit period.

It is suggested that the Comptroller's Bureau provide the institution personnel with the necessary instruction for the proper handling of these accounts.

Maintenance Charges: The collections from this source totaled approximately \$45,000.00, yet only a very limited audit could be obtained because of the lack of sufficient records. It is suggested that in order to make a more satisfactory audit of these maintenance charges a complete record of all rooms and houses available for rent should be kept together with the names of the occupants and dates of occupancy.

BOARD OF REGISTRATION IN MEDICINE AND NURSING

REPORT No. 51-38

Handling of Cash: Previous audit reports have repeatedly noted that between both boards seven persons handle cash receipts account of income, and have recommended that a study be made by the Division of Registration and the Comptroller's Bureau as to the advisability of relieving these several persons of this duty by designating one person as cashier for the two boards. As the situation still remains the same, attention is again directed to it.

Relating to Board of Registration in Medicine Suspense Account: The previous audit report stated:

"As now installed, the suspense accounts for examinations and certified statements are merely reference accounts without control or proof. Only those entries are put in suspense which cannot be given an application number of acceptance. Items in suspense, such as those waiting examinations, are not considered suspense items. It is recommended that the Division of Registration and the Comptroller's Bureau study the feasibility of making the suspense account an actual controlling account."

Inasmuch as nothing has been done in this regard, attention is again called to it.

Board Minutes: It was noted that applicants for certificates to practice medicine who qualify through endorsement and National Board certification are issued certificates by means of a vote of the Board of Medicine which is recorded in the minutes. However, there is no record in the minutes relative to the results of the examination and re-examinations held for regular qualifying applicants.

It is therefore recommended that the results of all examinations and re-examinations be also made a part of the board minutes.

Suspense Items: It was noted that three postal notes have been carried as suspense items. As they have been in this category for some time it is recommended that they be

now classified as unlocated income.

Application Numbers: The previous audit report recommended that the Comptroller's Bureau review the methods now in use with the idea of giving each entry a cash book entry number, this number to appear on the application. As this has not been done, attention is again called to it.

Serial Numbered Forms: It was noted that the engrossed certificates, temporary certificates and rejection slips were not serially numbered by the printer, but were numbered with a "Numbering Stamp" by the Division. It is again recommended that in the future these forms be serially numbered by the printer.

MYLES STANDISH STATE SCHOOL

REPORT No. 51-39

Financial Reports: Several clerical errors were noted in the monthly financial reports. These were brought to the attention of the institution treasurer for correction or adjustment.

Accounts Receivable: There are two accounts that have been long overdue. These accounts are due from a physician formerly employed at the school and who is now employed at another State institution and from a dentist who is no longer connected with the school. All other accounts are on a current basis.

It is suggested that the foregoing two accounts be referred to the Attorney General for disposition.

Farm Accounts: In connection with the checking of the 1949 farm records, it was noted that the Farm Control Accounts in the General Ledger were not in reconciliation with the farm records.

Among the differences noted were the following:

The farm storage balance (inventory) as shown by the General Ledger accounts was overstated by \$1,591.77.

The total farm production as shown by the General Ledger account was understated by \$238.50.

The total farm products used as shown by the General Ledger account was understated by \$218.63.

The total farm products transferred to the storeroom as shown by the General Ledger was understated by \$38.21.

These differences were caused mainly by erroneous handling of entries for farm shrinkage, spoilage, and farm sales to other institutions for less than farm price.

It is also suggested that the Farm Storage balance in the General Ledger should be brought into agreement with the corresponding accounts in the Farm Ledger.

The 1949 farm records in general were found to be in a better condition than those for 1948. It would also appear that the farm records for the 1950 farm year are being handled in a more satisfactory manner.

School Lunch Program Fund: This fund was established with money provided by the Federal Government to supplement the rations.

Patients' Bank Accounts: Individual bank accounts for patients on parole have not as yet been opened. It is understood that this arrangement is pending until a permanent superintendent is appointed.

STATE SUPERINTENDENT OF BUILDINGS

REPORT No. 51-40

Assignment of Rooms in State House and Elsewhere: Section 10 of Chapter 8 of the Tercentenary Edition of the General Laws, as amended by Section 4, of Chapter 249 of the Acts of 1938, and Chapter 440 of the Acts of 1943, referring to the Superintendent of Buildings, states:

"He shall, under the supervision of the governor and council and with the approval of the commission on administration and finance, assign the rooms in the state house and rooms elsewhere used by the commonwealth, and may determine the occupancy thereof in such manner as the public service may require"

In conformance with the foregoing statute, certain private service enterprises have been allotted rent-free space in the State House.

YOUTH SERVICE BOARD

GENERAL DEPARTMENT

REPORT No. 51-41

Materials and Supplies: By a vote taken at the meeting of the Youth Service Board on November 22, 1949, Boys' Division clothing stock room carried at the Lyman School was discontinued.

The Materials and Supplies account in the general ledger records showed the following inventory transfers to the Lyman School for Boys' storeroom:

6-30-50	Journal Entry No. 176	\$1,147 50
6-30-50	Journal Entry No. 178	977 83
7-31-50	Journal Entry No. 14	1,250 00
	Total	<u>\$3,375 33</u>

The foregoing transfers were not verified by comparison with the stock ledger records of the Lyman School for Boys.

It was noted, however, that the stock records of the Youth Service Board show that stock amounting to \$127.99 was not turned over to Lyman School for Boys at that time. On the date of audit the stock ledger balances totaled \$109.58

Attention is called to the fact that the vote of the Board called for discontinuance of the clothing stock room in entirety, but no mention was made of retaining any of the inventory.

It was also noted that the stock ledger records and the Materials and Supplies account in the general ledger show adjustments made for overages of \$369.50 and for shortages of \$266.04 during the period from November 17, 1949 to June 30, 1950.

Income: During the audit period a total of \$1,133.00 was received as part reimbursement for the care of children by the Commonwealth. This money was received from parents and guardians through the courts, etc. It is suggested that the Board give further consideration to the possibility of seeking further reimbursements for the care of these children.

Monthly Financial Reports - Cash Statement: It was noted that certain monthly financial reports did not include a complete cash statement. It is suggested that each financial report contain such a completed statement.

Journal Entries: It is suggested that all journal entries be approved and signed, and that each item on them should include the actual posting reference.

Bookkeeping: It is suggested that all bookkeeping functions be consolidated in one section. It is further suggested that all cash transactions should be handled through that section. All expenditures of cash should be made only upon a properly authorized written order.

It was noted that several checks were drawn payable to "Cash". These checks should be made payable to a responsible employee.

The Male and Female Trust Fund Income Cash is being handled through an advance money bank account. It is recommended that a separate bank account be maintained for this cash.

Special Bank Account - Boys' Parole Branch: A fund of \$1,000.00 was set up to reimburse male wards for losses incurred by them because of irregularities in their respective savings accounts during the years 1943 and 1944. Payments from it totaled \$947.95 leaving a balance of \$52.05 in the fund.

This account which is in the name of a former trustee, is on deposit in the State Street Trust Company of Boston.

The balance is not carried on the books of the Board and the Executive Secretary of the Board indicated that this fund is not the property of the Commonwealth and the balance should be returned to the original donor.

This fund has been inactive for some time, and it is believed that the matter of the disposition of the balance should be referred to the Youth Service Board.

Detention Home: A building located at 105 Huntington Avenue, Boston, and formerly occupied by the Bouve-Boston School of Physical Education, was purchased by the Board, for \$120,000.00. The deed to this property was received June 8, 1950.

It was originally estimated that the cost of renovating this building, according to a letter from the architect May 31, 1950, would be \$50,643.00. Bids for this renovation were advertised on September 21, 1950, and were opened on October 11, 1950. The contract has been offered to the lowest bidder at \$66,880.00, of which \$29,798.00 was for the general contractor and \$37,082.00 was for the sub-contractor.

It is now indicated that including engineering costs and other charges the total cost will approximate \$77,500.00. The original appropriation for the renovation of this building was \$60,000.00. However, a transfer of \$17,500.00 was authorized by the Department of Administration and Finance on November 7, 1950.

Maintenance by the Board of Places of Custody in Boston: Section 1 of Chapter 549 of the Acts of 1950 states in part:

" . . . but in no event shall said place or places of custody be maintained longer than July 1, 1951."

This was an amendment of Section 1 of Chapter 542, Acts of 1948, which had set a prior limit date of July 1, 1950.

It would therefore appear that this building will be used for a very short time after renovation unless steps are taken to repeal or extend the statute presently effective.

Reimbursement by the City of Boston: Section 2 of Chapter 549 of the Acts of 1950 reads as follows:

"Said chapter 542 is hereby further amended by striking out section 2 and inserting in place thereof the following section:-- Section 2. For establishing and maintaining a place or places of custody under this act, the board may expend such sums as may be appropriated therefor. Not later than October first in each of the years nineteen hundred and forty-nine, nineteen hundred and fifty and nineteen hundred and fifty-one, the board shall certify to the state treasurer the total amount expended by it under this act during the preceding fiscal year. One half of such amount shall be assessed on the city of Boston as provided by section twenty of chapter fifty-nine of the General Laws."

Attention is called to the fact that the foregoing indicates that one half of the cost and renovation of this building should be assessed on the City of Boston. It was noted, however, that to date no effort has been made to certify this amount to the State Treasurer for settlement with that city.

Comparison of Expenditures Fiscal Years 1949 and 1950: Schedule III of this report shows the following disbursements made by this Board during the past two fiscal years:

Fiscal Year 1950	\$450,976 86
Fiscal Year 1949	<u>257,416 01</u>
Increase	<u>\$193,560 85</u>

In this connection it was noted that the charges to Laboratory, Medical, General Care for the Fiscal Year 1950 totaled \$109,477.36. Of this total \$101,972.96 was for boys and girls boarded out. Permanent homes are paid \$13.00 to \$15.00 per week and temporary homes are paid \$3.95 to \$4.20 per day for boys and up to \$6.55 per day for girls.

There were 105 boys and 50 girls boarded in private homes as of November 1, 1950. There were 1,706 children in the custody and care of the Board November 1, 1950 including 1,292 boys and 414 girls.

Unpaid Wages - Female Wards: Wards of the Girls' Branch are sometimes placed in private homes as domestics after an agreement is entered into with the employer providing for the rate to be paid, etc. The cost of clothing, etc., is deducted from the total wages due. Generally spending money is also given directly to the ward. The balance, after these deductions, is remitted to the Girls' Branch for deposit in a bank account which is maintained for each ward. On November 6, 1950 according to the records there was due to the girls for net wages earned a total of \$1,144.25. This money has been outstanding

for the following periods:

1 month	\$ 712 36
2 months	91 10
3 months	80 29
4 months	11 14
7 months	86 29
Since 1949	67 10
Since 1943	85 68
Since 1940	10 29
	<u>\$1,144 25</u>

The fundamental responsibility for the handling of the wards' accounts rests with this board and it is obvious that sufficient efforts have not been made to see that these accounts are collected currently. The last four items in this list are in the hands of the Attorney General for collection or disposition. During the period under audit 5 accounts not listed totaling \$186.67 were charged off as uncollectible with the authority of the Attorney General.

Verification notices were sent to all these outstanding accounts except accounts with the Attorney General and acknowledgements were received from approximately 65%.

It is recommended that the available facilities of the State Department of Labor and Industries also be utilized, to see that these monies are collected promptly.

Ward Wage Monthly Reports: It was noted that several monthly wage reports of employers were not available for audit purposes.

It is suggested that the employers all be instructed to send in their wage reports monthly. These forms should be completely filled out, and signed by the ward, the employer and the visitor in charge of the ward.

Ward Wages - Accounts with the Attorney General for Collection: All accounts over six months had been turned over to the Attorney General with one exception. An account dated February 28, 1949, for \$23.55 should be turned over for collection without delay.

Accounts on record as being with the Attorney General were checked to the records in that department. One account balance of \$74.29 was listed as \$30.00, the difference being a credit allowed by the supervisor in the Girls' Division. A letter advising the change was on file in the Attorney General's Department, but the bookkeeping office of the Board had no record of the record.

It is also suggested that the Board determine what accounts should be turned over to the Attorney General. All credit should be passed through the bookkeeping office of the Board.

Trustee Accounts - Cash Received from Other Sources: During the audit period there was received from other sources for boys \$1,093.06, and for girls \$2,151.51. These amounts were analyzed as follows:

BOYS

<u>Received From</u>	
Insurance Companies	\$ 612 50
Division of Child Guardianship	356 96
Turned over by Boys	123 60
Total	<u>\$1,093 06</u>

GIRLS

<u>Received From</u>	
Insurance Companies	\$1,200 00
Division of Child Guardianship	558 01
Relatives and Others	183 50
Turned over by Girls	175 00
Probation Officers	35 00
Total	<u>\$2,151 51</u>

In addition to the foregoing amount received from Probation Officers, other amounts are received through them for reimbursement for care.

Suspense Account - Girls: It was noted that a Provident Institution for Savings bank book No. 604863, is carried among the active accounts. The balance in this book amounting to \$9.43 is an accumulation of several balances of less than \$1.00 each and small interest items. Items totaling \$5.49 are dated between December 12, 1939 to May 24, 1949, and interest items totaling \$3.94 are dated between July 22, 1941 to July 26, 1950.

Savings Bank Books Held as Property: Six bank books which are not included with the Trustee Accounts were being held as property on November 6, 1950. The individuals named on four of the books are, according to available records, now between 41 and 50 years of age.

It is advised that the Board consider the matter of disposition of these four accounts.

Another account with a balance of \$282.95 in the Boston Five-Cent Savings Bank was the property of a boy who became of age November 1, 1950 and was voted a discharge by the Board at the meeting of October 18, 1950. The boy has been under the guardianship of the Supervisor of the Boys' Division. This boy also has a bank book balance of \$32.52 in the Suffolk Savings Bank which is recorded among the active Trustee Accounts.

The sixth account, with a bank balance of \$77.59, is in the name of a boy, a runaway from Shirley since November 1946. He also has a bank account balance of \$43.76 in the Suffolk Savings Bank which is carried in the records of the active Trustee Accounts.

A bank book with a balance of \$10.00 in the Hyannis Trust Company is being held in the office, but is not even included in the property held category. The boy named in the bank book also has a bank book balance of \$34.53 in the Suffolk Savings Bank, under Trusteeship. It is understood that this boy resides in Plymouth, and it is suggested that an effort be made to have this \$10.00 balance transferred to the Trustee Accounts.

Trustee Accounts - Inactive: The inactive savings bank books are supposedly kept separate from the active books for convenience in handling. The inactive bank books listed on the date of the audit totaled only 39 of which 25 were for girls and 14 were for boys. The records, however, show that there were 110 inactive accounts including 62 boys and 48 girls. These are boys and girls who are listed as runaways, of age, whereabouts unknown, discharged, in prison, deceased, out-of-state, in military service, etc.

It is suggested that savings bank books be segregated between active and inactive accounts in accordance with their actual condition.

Trust Funds: The trust funds are on deposit in savings banks, as follow:

<u>Male</u>	
Suffolk Savings Bank for Seamen and Others	<u>\$11,672 82</u>
<u>Female</u>	
Provident Institution for Savings	\$ 8,538 40
Boston Five-Cent Savings Bank	2,159 49
Westborough Savings Bank	<u>2,025 91</u>
	<u>\$12,723 80</u>

Interest due on the foregoing principal was paid into the State Treasury to November 6, 1950. Two items of interest, however, were not entered on the Youth Service Board records as follow:

<u>Trust Fund</u>	<u>Interest Date</u>	<u>Bank</u>	<u>Amount</u>
Male	10-10-50	Suffolk Savings Bank	\$116 72
Female	10-10-50	Boston Five-Cent Savings Bank	21 59
		<u>Total</u>	<u>\$138 31</u>

At a meeting held October 18, 1950, the Board voted to authorize the Supervisor of the Girls' Division to turn over to the Treasurer of the Commonwealth a bank book No. 644359,

Provident Institution for Savings, balance \$1.09, to be added to the principal in the Female Trust Fund. The bank book was not transferred to the Trust Fund account up to the date of the audit, as the State Treasurer had not requested transfer.

UNIVERSITY OF MASSACHUSETTS AT AMHERST

REPORT No. 51-42

Cash Over and Short: On October 31, 1950, when this audit was initiated, there was found to be a net cash shortage of \$133.11 in connection with the balancing of cash. This represented a further increase to the accumulated shortage of \$258.36 for the audit period. The record of daily cash variances was analyzed for the audit period, and a comparison of the variances for the current and previous audit periods were made. While the greatest number of the variances apparently occurred during the student registration periods, it was noted that there were some in every month within the period covered by this audit.

The processes involved in handling the cash receipts and payments section of the treasurer's office were discussed with the assistant treasurer of the University and it is understood that continued efforts are being made to reduce these cash variances to a minimum.

Advance Money: On October 31, 1950, there was \$1,110.56 advanced for travel to an employee of the University although only \$100.00 had been allowed for this purpose, creating an overdraft of \$1,010.56 in travel funds, necessitating the use of funds from other sources. It is recommended that the custodian of the advance funds comply with the provisions of the Comptroller's Manual of Accounting regarding the handling of advance money.

Boarding Hall - Materials and Supplies: A physical inventory of Materials and Supplies was taken on January 31, 1951, and resulted in shortages of \$770.66 and overages of \$314.10. The control account in the general ledger was analyzed and the adjustments made during the period were compiled as follows:

Overages of	\$ 510 33
Shortages of	<u>1,382 50</u>
	<u>\$1,892 83</u>

According to the explanations indicated, these adjustments were necessary for the following reasons:

Clerical errors	\$1,083 49
Over-issue	96 26
Issued without requisition	109 17
Price adjustment	1 70
Shrinkage and spoilage	598 81
Over-received	<u>3 40</u>
	<u>\$1,892 83</u>

It was further noted that suspense accounts representing liabilities of the 1950 fiscal year for Materials and Supplies were being carried on the stock ledgers with amount of \$15,374.64. It is suggested that these suspense accounts should be adjusted by journal entry as soon as each item is settled. All suspense accounts still appearing on the stock ledger represent items on which no further delivery is contemplated.

Personnel - Records and Pay Roll Disbursements: Not including the student pay roll, the University authorities reported to the State Comptroller that there had been 1,143 permanent and temporary employees on the University pay roll for the period from July 1, 1950 to December 31, 1950.

It was recommended, in the previous audit report, that the Division of Personnel and Standardization review the personnel structure of this University. During the progress of the current audit, representatives of the Division of Personnel visited the University and interviewed each employee.

At the time of the previous audit, it was noted that certain employees of the University were being paid below the prescribed wage scales based upon the length of service of the individual employees and upon rules and regulations of the Division of Personnel relative to annual increments.

Because of these findings, the University compiled a pay roll for the period from July 1, 1948 to January 23, 1950, which aggregated \$9,321.24. This pay roll did not include the names of all individuals who had not received their proper wage.

In addition to this pay roll, the University compiled a pay roll for holiday pay for the period from January 1, 1946 through January 1, 1950, approximating \$7,303.53. This holiday pay roll was applicable to those individuals whose names also appeared on the pay roll referred to in the previous paragraph.

It is understood that two more pay rolls are to be compiled before the individuals now employed are placed upon the regular monthly pay roll at their proper rate. One is to be for the period from January 23, 1950 to June 30, 1950, and the second for the period from July 1, 1950 to January 23, 1951, or to a date in the 1951 fiscal year when the rates of pay will be adjusted.

In June 1950, the University re-employed an individual who had previously been employed. This individual had, at the time of re-employment in June 1950, sufficient creditable service to warrant an increase in pay over the minimum salary rate for the position. However, this individual was not given the increase nor did the University request the Division of Personnel to approve a salary rate higher than the minimum rate for this position.

The name of this individual was not included on the holiday pay roll and it was determined that there were six holidays within the periods this individual was employed by the University and for which he was not paid. It appears that there is a liability of the Commonwealth to this individual of approximately \$50.00.

It is also understood that there are employees now employed at the University who at one time were classified as so-called "Quota Labor." These employees were not included in the holiday pay roll, although this pay roll covered periods of time when these employees were on "Quota Labor" and were not paid for holidays.

It is recommended that the Commission on Administration and Finance investigate the entire so-called "Quota Labor" to determine the liability of the Commonwealth to those employees now currently employed by the University as to former employees who have been deprived their just and legal wage.

Tenure of Employees: In this connection attention is called to the following sections of Chapter 75 of the Tercentenary Edition of the General Laws:

"Section 13. The trustees shall elect the president, necessary professors, tutors, instructors and other officers of the college and fix their salaries and define the duties and tenure of office.

"Section 24. Employees of the University shall be exempt from civil service laws."

Section 19 of Chapter 15 of the Tercentenary Edition of the General Laws also states in part, as follows:

"The trustees of the University of Massachusetts . . . shall serve in the department." (of Education)

Section 9B of Chapter 30 of the General Laws, as inserted by Chapter 524 of the Acts of 1946, states in part:

"No person employed in any institution under the department of mental health, public health, public welfare or correction or in the Soldiers' Home in Massachusetts, except an employee, other than a nurse, rendering professional service, who is not classified under chapter thirty-one, and no maintenance employee in any institution under the department of education, shall, after having served satisfactorily for six months in his position, be removed therefrom except for just cause and for reasons specifically given him in writing at least seventy-two hours prior to such removal . . ."

The following references relating to tenure appear in the Manual of Standard Practices in the Administration of the University, (Revised November 1949):

Terms of Employment of Resident Teachers:

"3. Appointments of resident teachers, unless otherwise stated, are for one year at a time during the first three years of service. At the end of the third year tenure may be granted by the President which will be effective with-

out reappointment as long as service in and to the University is mutually satisfactory."

Terms of Employment for Members of the Professional Staff other Than Teachers:

"3. Appointment to positions on the professional staff, unless otherwise stated, are for one year at a time during the first three years of service. At the end of the third year tenure may be granted by the President which will be effective without appointment as long as service in and to the University is mutually satisfactory."

Terms of Employment for Non-Professional Staff Members:

"1. Appointments are for an indefinite period. They are made with the understanding that they may be terminated upon one month's notice in the case of unsatisfactory service or other cause."

Upon review and comparison of the various statutes shown heretofore with the terms of employment as shown in the Manual of Standard Practices, it appears that so-called resident teachers and other members of the professional staff acquire tenure under authority of Section 13 of Chapter 75 of the General Laws, and the maintenance employees of the University are protected from removal under authority of Section 9B of Chapter 30 of the General Laws.

In addition to the professional staff, resident teachers and maintenance employees, there are other employees of the University, estimated to number several hundred employees, who are not protected against demotion or dismissal without cause.

Attention is called to Section 24 of Chapter 75 of the General Laws, which exempts the employees of the University from Civil Service laws.

Most of the employees who are not included in the protective provisions quoted above, occupy pay roll classifications, which are, in other offices, department and institutions of the Commonwealth, subject to the provisions of Civil Service laws. The employees in these other state departments and institutions are appointed from lists of applicants who have successfully passed open competitive examinations.

It is, therefore, recommended that the positions excluded from the provisions of Section 13 of Chapter 75 and Section 9 of Chapter 30 of the General Laws be placed under Civil Service and become subject to the provisions of Chapter 31 of the General Laws.

University Production: Beginning in 1940 the budgetary classification "Farm" was changed to "Productive Enterprises" and included the following departments:

- Dairy
- Farm
- Floriculture
- Mount Toby
- Pomology
- Poultry Husbandry

The University general ledger now includes the following accounts relating to the farm activities.

- Farm Production
- Farm Storage
- Farm Products Used
- Clearing Account Prior Farm Storage

These accounts show only transactions which come within the supervision of the Farm Department. If the titles of these accounts were changed, and the word "Farm" in each of the four accounts be replaced with the word "University," the production and disposition of all the University departments could be recorded on the financial records of the University Treasurer and these accounts could reflect the entire production of all the University departments.

At the time of several previous audits, this matter was brought to the attention of the University Treasurer, and it was suggested that the University departments be provided with the subsidiary forms now in use at the Farm Department so that the monthly production reports which are submitted to the Treasurer's office could be verified to a record of original entry.

It is again recommended that this matter be referred to the Commission on Adminis-

tration and Finance, so that the necessary records of original entry and a complete centralized control of all University production and disposition may be installed.

Alvord Dairy Scholarship Fund: It was shown in the previous audit report that the bequest under which the fund was established specified that the fund was bequeathed to:

" . . . The Massachusetts Agricultural College, Amherst, Massachusetts, provided that the present name and leading features of said college be not changed, to found a scholarship, to be known as the Alvord Dairy Scholarship . . . "

On October 31, 1950, the balance in this fund was \$4,197.15 with accumulated income of \$1,459.90. The name of the college was changed by Chapter 127 of the Acts of 1932 to the Massachusetts State College, and then changed to the University of Massachusetts by Chapter 344 of the Acts of 1947. The question has been raised in previous audit reports as to whether the trustees are complying with the original bequest in continuing to retain this fund.

Attention is again called to the provisions of this fund.

Danforth Keyes Bangs Revolving Fund: This fund was established by the Board of Trustees by transferring \$5,000.00 from the Danforth Keyes Bangs Endowment Fund, which had been allowed to accumulate from the original bequest of \$6,000.00.

As the Danforth Keyes Bangs Fund was established by a bequest providing:

" . . . the income thereof to be used annually . . . "

It was recommended in previous audit reports that the Attorney General be requested to examine the establishing of the Danforth Keyes Bangs Revolving Loan Fund to determine if the fund could be properly set up under the terms of the bequest. As yet this matter has not been clarified. On October 31, 1950, the balance in this fund was \$5,444.06.

Charles S. Plumb Fund: The bequest under which this fund was established states that one-half the annual income is to be awarded each year and the other half of the annual income is to become part of the original fund for the next fifty years after the plan goes into operation.

The records of the college show that no award has been made from this fund.

Half the income earned to June 30, 1950 was transferred to the principal account on June 30, 1950.

George H. Barber Fund: The income of this fund is to be used annually for the encouragement of general athletics among the student body as a whole. There have been no expenditures since prior to July 1, 1946 from this fund and accumulated income on hand on October 31, 1950 amounted to \$3,378.46.

Disbursement of Endowment Income: In connection with checking the disbursements, several items were noted which appear to be questionable charges against the various endowment funds.

While it is recognized that certain endowment funds, particularly the Burnham, Session and Wheeler Funds, are not restricted insofar as expenditures are concerned as distinctly as are some of the other funds, it is thought that certain expenditures made from them should have been confined to matters other than the following:

Burnham Emergency Fund

September 28, 1949	9 Luncheons	\$ 6 75
October 20, 1949	8 Luncheons	5 20
October 13, 1949	4 Luncheons	2 30
October 3, 1949	5 Luncheons	3 25
December 22, 1949	Plant and Night Letter	10 83
January 27, 1950	4 Luncheons	2 60
January 29, 1950	10 Luncheons	6 50
January 30, 1950	10 Suppers	5 50
		<u>\$42 93</u>

Sessions Fund

July 14, 1950	Uniform Deposit Account	<u>\$61 87</u>
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Trust Fund Interest

August 31, 1950

1,000 Copies Preliminary Report of
Financial Operations for the
year ended June 30, 1950

\$41 00

NORTH READING STATE SANATORIUM

REPORT No. 51-43

Materials and Supplies: The test inventory taken in connection with this examination indicated larger variances than would normally be found in an institution of this type. It is suggested that inventories be taken by institution personnel on some more frequent and regular basis and that necessary adjustments, when the occasion develops, be promptly and currently made.

Maintenance Charges: It was noted that the so-called "survey rates" established as of January 1, 1950 did not provide new rates for the five single rooms in the East Cottage No. 1. Two of the occupants now pay at the rate of \$7.40 per month and three at the monthly rate of \$9.90. It was also noted that those occupying the same rooms prior to January 1, 1950 continued to pay the old rates, while those taking occupancy after January 1, 1950 now pay the survey rate which is approximately \$2.50 per month less.

It was deemed impossible to make a complete audit of maintenance charges because of the lack of detail indicating dates of occupancy. However, all deductions for October 1950 were checked to see that established survey rates were collected.

It is recommended that the Comptroller's Bureau devise and install a system which will give all such information on each room, apartment or house which is available for renters.

Board of Patients: In the case of patients under treatment for a rheumatic heart condition, the Department of Public Health has ruled that unless the parents or guardians can afford to pay the full rate of \$14.00 per week, no charge shall be made. Because of this, out of the ninety-two patients admitted, only two paid the full rate and the other ninety paid nothing.

It would appear to be better business to accept part of the rate rather than nothing, as is the present case. The Department of Mental Health collects whatever a responsible party can afford to pay. The present per capita cost of about \$85.00 per week for the maintenance of children at this sanatorium might be considerably lightened if this ruling were amended.

Garage Rentals: It was noted that the total collections for garage rentals for the twelve month period under audit were only \$368.50. Garages are rented for \$1.00 per month which is barely enough is barely enough to cover their maintenance costs.

It was further noted that there are several employees who are allowed the use of garages without paying rent. Inasmuch as all maintenance, as part of salaries, has now been discontinued, it is suggested that these employees should also pay the established garage rate in effect.

Canteen: A canteen is maintained at the sanatorium by a disabled war veteran. He is not charged for heat, light or rent. A survey of his available stock for sale indicates a substantial inventory. The canteen is apparently well operated and is strictly supervised by the Superintendent of the institution.

It is recommended that the matter be studied and that consideration be given to making a nominal charge for rent, light and heat.

Bookkeeping General: Several instances were noted of shortcomings in bookkeeping practices. Checks from the various cities and towns are originally entered in total in the cash book with no reference to the individual patients involved. Garage rents are held until the end of the month and then entered on the cash book in one amount. Sales slips are not given when payments of garage rents are accepted. Red ink is used for sub-totals in the cash book.

It was also noted that several employees occupying houses or apartments are billed each month and sales slips are accordingly made out. These items should be handled as pay roll deductions.

The active and suspense accounts receivable were in a very confused condition. After accounts are turned over to the Attorney General for collection and charged to the Suspense

Account, quarterly charges are still allowed to continue to accumulate. In some instances they were charged to active Accounts Receivable and in others to the Suspense Account.

Settlements of Patients: There are two ex-patients whose status has never apparently been determined.

8118	J. B.	Adm.	9-16-40	Dis.	12- 2-40
8112	A. DeM.	Adm.	12-29-39	Dis.	7-17-41

Since neither settlement has been determined in almost ten years, it is suggested that the Settlement Division be asked to authorize the charging of these accounts to State Settlements.

Farm Audit: Comparable figures in the annual farm report for 1949 and the control accounts in the general ledger could not be reconciled as follows:

	<u>Farm Report</u>	<u>Control Account</u>
Farm Products to Storeroom	\$10,216 83	\$10,216 73
Farm Production	10,793 78	10,794 68
Farm Products Used	10,788 48	10,793 76
Farm Storage	794 98	790 60

It was also noted that shrinkage charges appeared very low in comparison with figures usually noted as follows:

	<u>Normal</u>	<u>Actual</u>
Beets	15%	1.6%
Cabbage	30%	11.5%
Carrots	15%	10.5%
Parsnips	20%	11.0%
Turnips	10%	.0%

Margaret N. MacNevin Fund: This fund was established in July 1944 and the principal is held by the State Treasurer. Previous reports have recommended that this fund be invested so that it may earn income. As far as can be learned, this recommendation has not been followed. There are apparently no restrictions on the expenditure of either the principal or interest from this fund.

ATTORNEY GENERAL

REPORT No. 51-44

Accounts Referred for Collection: A so-called docket card is made out in the chief clerk's office for each amount transferred to the Attorney General for collection. The docket cards are filed alphabetically under the name of the individual or concern who owes money. This is true of all accounts transferred to the Attorney General with the exception of cases transferred by the Department of Corporations and Taxation.

The accounts referred by the Department of Corporations and Taxation to the Attorney General for collection may be divided into two groups:

1. Delinquent taxes which the Income Tax Division sends to the Attorney General in the form of one docket card for each case.
2. A list of corporations who have failed to file the annual certificate of condition, which list is sent by the Commissioner of Corporations and Taxation. From this list the chief clerk writes up the individual docket cards.

If the Attorney General has been put to any expense, namely, the cost of serving the papers by a deputy sheriff, such costs are charged when the return is filed. The chief clerk does not accept the \$10.00 fee for filing the annual certificate of condition, but makes certain that it is paid to the Secretary of State.

There appears to be no practical way that the Auditor can check the penalties and costs assessed by the Attorney General in connection with the filing of the certificates of condition.

The Attorney General uses his discretion as to whether suit shall be brought for the

collection of the accounts, compromise the account or settle it without court action. Several previous audit reports have stated:

"If it is desired to arrange the records in the office of the Attorney General so that the State Auditor may make a satisfactory audit of these accounts, several changes in the set-up are necessary.

"The mere checking of the receipts showing on the docket cards to the cash book kept by the chief clerk does not constitute an audit of the accounts.

"1. The so-called card docket file which is arranged alphabetically by the names of the persons owing money should be supplemented by a file arranged by State Departments and Institutions and under each State subdivision there should be a record of each individual or concern owing money to that particular department or institution, and it should be the duty of whoever has charge of this record periodically to verify it by correspondence with the several departments and institutions.

"2. All entries, made in the above described file for accounts settled in any manner except by the payment of the amounts due, should be supported by authorizations signed by the officials responsible.

"In addition to the changes in the records, it will also be necessary to establish some definite policy for the chief clerk to follow, in handling delinquent certificates of condition."

To date, none of the above recommendations have been carried out by the department.

Appropriation Deficiencies: The audit reports of the past several years have included references to appropriation deficiencies totaling \$2,248.12. In this connection, it was noted that these accounts have now been closed and the deficiencies were not paid.

Bonds: It was again noted that the custodian of the advance fund was not bonded.

Bookkeeping: It was noted that this office does not maintain a general ledger nor an allotment Control Register. It is suggested that the assistance of the Comptroller's Bureau be requested in this direction.

STATE TEACHERS COLLEGE AT WORCESTER

REPORT No. 51-45

Cash Book Entries: All cash receipts from the United States Veterans Administration on account of books purchased, student activities, handling charges, etc., were not recorded in the State cash book.

In this connection it is understood that such receipts are deposited in the regular bank account and a check drawn payable to the students' activities fund, but such deposits and disbursements are not recorded in the State cash book.

Income: From an analysis of the Veterans Administration's paid vouchers, as well as other data on file, it was noted that for the period under audit the Veterans Administration paid the college the sum of \$304.53 on account of handling charges for books sold to students who are veterans.

In connection with the foregoing, it was noted that from the sum of \$304.53 received from the Veterans Administration, \$158.66 was recorded as income, \$144.36 was turned over to the Students' Activities Fund and \$1.51 was not recorded on the records of the college.

In further connection with the sum of \$304.53 paid by the Veterans Administration on account of handling charges of books sold to veterans, it was noted that prior to this audit period this type of income was recorded on the college records as income and forwarded to the State Treasurer.

WORCESTER STATE HOSPITAL

REPORT No. 51-46

Medical Facilities Available to Community: Previous audit reports have included the the following comment:

"Item 2 of Regulation No. 16 of Department of Mental Health States:

'The special medical facilities of the institution may in unusual circumstances be made available to persons in the community upon the request of

a physician, at the direction of the Superintendent. The charge for this service shall in no instance be less than the cost thereof and shall be credited to income.'

"An Electroencephalograph machine located at this institution is used for brain wave tests, so-called E. E. G. Tests.

"These tests are given by a part-time employee of the Commonwealth and a technician who is not an employee of the Commonwealth.

"It was ascertained that the amount of \$1,674.00 was collected for E. E. G. Tests given at this institution to other than hospital patients and this entire amount was given directly to the private organization which employs a technician assisting in giving these tests.

"The entire proceeds from this activity represent income due the Commonwealth and must be reported as such and forwarded to the State Treasurer. If the services of this technician are necessary and desirable he should be employed, through regular channels, as a part-time or full-time employee of the Commonwealth and paid through proper and authorized State pay rolls."

In connection with the foregoing comment it was noted that no income from this source had been turned over to the State Treasurer to date.

It was further noted that notwithstanding the fact that the Superintendent of this hospital indicated during the course of the previous audit: "that he had ordered the practice of giving E. E. G. Tests to persons other than hospital patients be discontinued," this practice still exists.

"The following schedule shows the amounts collected during the past three audit periods for E. E. G. Tests which have not been recorded as income on the institution's records:

<u>Audit Period</u>	<u>Amount</u>
April 28, 1947 to May 4, 1948	\$1,674 00
May 4, 1948 to January 10, 1949	1,365 00
January 10, 1949 to February 6, 1950	755 00
	<u>\$3,794 00</u>

"These amounts were determined from information submitted by the director of a private medical organization who stated that the information was taken from the records of that organization."

In further connection with the foregoing comments, it is now understood from discussions with the hospital superintendent that this practice was discontinued during the previous audit period.

State-Owned Laboratory Supplies and Equipment Issued to Laboratory Then Turned Over to a Private Organization: During the course of this examination it was learned that certain laboratory supplies and equipment, which were purchased from the institution's maintenance and Dementia Praecox Research appropriations and which had been issued from the institution's pharmacy or storeroom to the institution's laboratory, had been turned over to a private organization.

There is a memorandum record kept at the institution's laboratory of the supplies and equipment issued to that private organization. There is also on file an invoice from a laboratory supply firm in the amount of \$102.63 for supplies which, according to that invoice were purchased from Dementia Praecox Research appropriations. There are notations on these invoices which indicate that at least some of these supplies went to that private organization.

This private organization is the one which is referred to as having received \$3,794.00 which was collected for E. E. G. Tests.

In discussing this matter with the institution's superintendent, he stated that he had received verbal permission from the Commissioner of Mental Health to furnish this private organization with these supplies and equipment.

The propriety of turning over State purchased equipment and supplies to a private organization is seriously questioned.

In further connection with the foregoing comments, it was also understood from the hospital superintendent that this practice was discontinued during the current audit period.

However, it was noted that the Commonwealth has never been reimbursed for the value of the items.

DEPARTMENT OF PUBLIC SAFETY

REPORT No. 51-47

Framingham Stores: The previous audit report stated:

"Attention was called in the two previous audit reports to an amount of \$144.30 due the department since 1941 for 39 cases of paper napkins returned to the vendor as unsatisfactory. This then was turned over to the Purchasing Bureau on July 17, 1941 for collection. To date, this amount has not been collected, but an attempt was made to apply this credit to a current purchase from the same concern, without success.

"It is recommended that this account be turned over to the Attorney General for disposition.

"It was understood that this matter has been discussed with an Assistant Attorney General and that it will be formally given to the Attorney General in the near future.

"There has been no change in this situation during the current audit period."

It was noted that by letter dated April 7, 1950 the Attorney General authorized the cancellation of this item as uncollectible.

Collection of Boiler and Air Tank Inspection Fees: The previous audit report stated:

"This department has long extended credit in the matter of boiler and air tank fees. This practice has resulted in many charge-offs of fees for inspection of insured boilers, and each month there remains a large outstanding list of accounts receivable. A large amount of work is necessary in billing and follow up statements. On December 9, 1949 there were outstanding accounts to the amount of \$5,825.00, some of which must eventually be turned over to the Attorney General for collection.

"This matter was discussed with the Commissioner to whom the suggestion was made that future inspections be made upon the written application of the owner accompanied by the required fee. This system will eliminate all billings, assure the State 100% income and prevent the inspection of insured boilers. It will also eliminate the difficulty encountered in determining the real owner of a property. Inspectors have in the past been obliged to spend time at the Registry of Deeds to find out the owner of certain property.

"This suggestion met with the approval of the Commissioner and he gave instructions to prepare the necessary forms subject to the approval by the Attorney General."

It was noted that this recommendation was made effective July 1, 1950.

TREASURER AND RECEIVER-GENERAL

GENERAL DEPARTMENT

REPORT No. 51-48

General - Condition of Records: Because of the fact that certain records were not currently posted or sorted, this audit which was initiated on December 4, 1950, was seriously handicapped. In this connection, the attention of the State Treasurer and Receiver-General was called to the following conditions:

1. Bank checks which had been returned by the various banks had not been sorted in consecutive sequence.
2. Reconciliations of the bank accounts had not been maintained currently.
3. Paid bond coupons had not been arranged in proper order.
4. Coupon books had not been currently entered.
5. Warrants were not sorted or put in order.

It is hoped that arrangements will be made to maintain all records on a consistently current basis.

Cash and Secutities: The cash balances as per the books and records of the Treasurer and Receiver-General as of the close of business December 4, 1950, was \$30,689,834.70, and the book value of securities amounted to \$218,313,325.92, which included \$94,601,311.24 in the Unemployment Compensation Fund in Washington, D. C.

Active Banks - Reconciliation of Bank Balances: As was hereinbefore indicated the active bank accounts had not been reconciled by the department for several months prior to the date of audit. In this connection, the last of the bank statements, reconciled through November 30, 1950, was not received for audit purposes until February 14, 1951. This situation also applied at the time of the previous examination.

It is again suggested that bank reconciliations should be kept current, and it is further suggested that each adjustment shown on any reconciliation statement should show complete and correct explanations. The lack of these explanations created unnecessary delay in the progress of this audit.

Cash Balance - Daily Statement: The daily statement of cash prepared when the cash is balanced includes bank balances which are in agreement with the bank registers, or top sheets, which show all changes affecting the bank balances. Many of the charges and credits affecting the bank balances of December 4, 1950, were not made until several weeks after that date.

It is suggested that advice of changes, deposits, withdrawals, and adjustments, when received daily from the proper sources, should be entered promptly in the so-called "top sheets".

Salary Advances: In connection with the balancing of the cash on hand as of December 4, 1950, it was noted that there were still outstanding and uncleared salary advances for various State departments totaling \$34,274.45 as of the previous November 30. These advances with the exception of only \$474.80 were all cleared before the February 1951 pay roll. This latter amount included the following:

Excessive Advances - May 1950 through November 1950	\$438 50
Overpayments - Employments Terminated	36 30
	<u>\$474 80</u>

Funds in Certain Banks Exceed Legal Limitation: The verification of the funds on deposit as of December 4, 1950, in the various banks, indicated that monies on deposit in certain banks as of that date were apparently in excess of the maximum amount as indicated by Section 34 of Chapter 29 of the Tercentenary Edition of the General Laws, as amended, which reads as follows:

"Deposit of Public Moneys. -- The state treasurer may deposit any portion of the public moneys in his possession in such national banks, or trust companies, lawfully doing business in the Commonwealth, as shall be approved at least once in three months by the governor and council; but the amount deposited in any one bank or trust company shall not at any one time exceed forty per cent of its paid up capital, or, in the case of a bank or trust company having a paid up capital, of not less than three million dollars, forty per cent of its paid up capital and surplus; provided, that said limit may be exceeded for the purpose of the temporary deposit for not more than fifteen days of receipts from tax collections in a bank or trust company located on the same premises as the office of the collection section of the department of corporations and taxation. For the purpose of paying the principal or interest due on any bond, note or other obligation of the commonwealth, which is payable in the city of New York, he may keep on deposit in any national bank or trust company in said city, approved for the purpose by the governor and council, a sum not exceeding in the aggregate twenty-five thousand dollars, provided that for a period of two weeks prior to the date of any such payment or payments, said amount may be increased by a sum or sums sufficient to cover the same. A state treasurer making any deposit in violation of the foregoing provision shall be deemed guilty of misconduct and maladministration in his office within the meaning of the constitution; and any bank or trust company receiving any deposit in violation thereof shall be disqualified from receiving said moneys for the period of three years from the date of said deposit. All interest received on any deposits under this section shall be paid to the commonwealth. (1867, 21; P.S. 16, sec. 55; 1891, 310; R.L. 6, sec. 61; 1922, 10; 1936, 333; 1948, 396, approved May 27, 1948, declared an emergency law

effective on approval.)"

The depositories concerned included the following:

	Balance Dec. 4, 1950	40% Paid in Capital
United States Trust Company, Boston, Mass.	\$4,872,318 33	\$460,000 00
Springfield National Bank, Springfield, Mass.	587,430 83	520,000 00

It is suggested that an effort be made to arrange more strict compliance with the statute in this connection.

Idle Funds in Reserve Banks: An analysis of the Treasurer's cash balance as of December 4, 1950 indicated that \$10,664,618.67 was on deposit in so-called Reserve Banks. There was no indication that interest had been paid on these deposits by these Reserve Banks for the period under audit. These facts were promptly brought to the attention of an official in the Treasurer's office with the suggestion that they be placed on a Time Deposit basis or other income-yielding plan. It was then learned that action had already been taken to place the reserve deposits on an income producing basis.

In this connection the following letter was sent to all banks holding inactive funds on deposit belonging to the Commonwealth.

"THE COMMONWEALTH OF MASSACHUSETTS
TREASURY DEPARTMENT
STATE HOUSE, BOSTON

December 19, 1950

"To Holders of Inactive Demand Deposits:

"It is advisable for the Commonwealth to withdraw all or part of its inactive demand reserve deposit in your bank for use in meeting current expenses.

"However, if your bank cares to change our demand deposit into a time deposit bearing interest at 1% per annum, payable quarterly, it will probably not be necessary otherwise to disturb your account at present as this office can borrow money as needed in anticipation of receipts.

"Will you, therefore, please notify me at your earliest convenience whether you prefer to keep the account as a time deposit on interest from January 1, 1951, or to have the account withdrawn.

Very truly yours,

STATE TREASURER"

To these banks who complied with the suggested arrangement the following agreement form, which was apparently effective on January 1, 1951, was given:

"THE COMMONWEALTH OF MASSACHUSETTS
TREASURY DEPARTMENT
STATE HOUSE, BOSTON

January 2, 1951

"To the -----Bank

Massachusetts

Gentlemen:

"The undersigned hereby deposits with you the sum of ----- on time deposit open account and consents to the following regulations to govern the same and any additional credits or deposits made in said account:

"1. Such deposits are not subject to check, but may be withdrawn in whole or in part on the thirtieth day from receipt by the bank of written notice of the depositor's intention to withdraw or on any specified date subsequent to such date.

"2. Such deposits shall draw interest at the rate of 1% per annum, payable

semi-annually, but the bank reserves the right to change the rate on thirty days' notice to the depositor.

"3. Interest on funds respecting which notice of withdrawal has been given shall cease at the expiration of the date specified for withdrawal.

"4. Interest that may be earned on this account shall be remitted by draft to the undersigned.

"5. This agreement may be cancelled or amended by the bank at any time upon thirty days' notice to the depositor or at any time without notice if found to be not in conformity with the laws or regulations of the United States or the Board of Governors of the Federal Reserve System or other competent authority.

THE COMMONWEALTH OF MASSACHUSETTS

(Authorized signature of the depositor)

Address:

ACCEPTED:

-----Bank

By _____ Cashier"

It is estimated that if this arrangement had been in effect for the 1950 calendar year, the interest at the agreed rate of 1% on the balances in these accounts would have been approximately \$100,000.00.

Bonus Division: There was due the Commonwealth on December 4, 1950, on account of bonus overpayments, the sum of \$6,300.00, of which \$1,508.00 has been referred to the Attorney-General for disposition. It was again noted that the present notebook record for the individual overpayments as maintained by this division is inadequate. The controlling account is also maintained in a notebook which in our opinion does not represent a proper state record for monies due the Commonwealth. It is suggested that the Department of Administration and Finance be consulted as to the installation of the proper records.

Bonus Overpayments - Accounts with the Attorney-General: Several accounts of overpayments of bonuses were indicated as having been sent to the Attorney-General for disposition. An attempt was made to check both the accounts and amounts at the Office of the Attorney-General, but they could not be located or identified in that department.

It is again suggested that a new and complete list of all such accounts, with the amounts due be sent to the Attorney-General.

Coupon Bond Interest Paid: In connection with this examination the paid bond coupons could only be reconciled to December 31, 1949, because these coupons had not been sorted beyond that date by the State Treasurer's Department. It was further noted that the postings to the coupon register were eight months in arrears. Because of the foregoing, verification of these disbursements could not be accomplished on any practical basis. It is suggested that these records be kept constantly current.

It was noted that the outstanding bond interest coupons due and unpaid as per records as of December 31, 1949 totaled \$50,245.85.

Securities Ledger: In this connection the previous audit report stated:

"On the date of the audit the securities ledger consisted of two groups of loose-leaf ledger sheets, one for the recording of the Trust Fund Securities, and the other for the recording of the Trust Deposit Securities.

"It is suggested that the Comptroller's Bureau be contacted relative to the installation of a modern ledger for recording securities."

It was noted that this suggestion has been complied with, and a loose-leaf modern ledger is being currently maintained.

Unpaid Interest Receivable: While checking interest receipts, it was noted that registered bond interest on \$6,000.00 4% Muskegan, Michigan bonds, which was due on August 1, 1950, had not been paid. As the result of a request for verification, the amount which totaled \$120.00, and had apparently not been paid because of inadvertence was received by the State Treasury on February 26, 1951.

Veterans' Housing: Under existing veterans' housing statutes the Commonwealth has made substantial financial commitments which are obligations of the Veterans' Services Fund.

Under Chapter 372 of the Acts of 1946, financial assistance is limited to a 10% capital grant, based on the total development cost of the housing project. The 10% capital grant is to be given as a subsidy, payable at the rate of 2% per annum for a period of five years. The Comptroller's records indicate that \$484,399.59 was expended from an appropriation of \$500,000.00 for the 1950 fiscal year to fulfill the Commonwealth's share of the above obligation.

Under Chapter 200 of the Acts of 1948, the Commonwealth is committed to a \$200,000,000.00 contingent liability, as it guarantees the payment of all notes, bonds and interest of local housing authorities. It further provides for a subsidy of 2 1/2% on the cost of the projects to be used by the municipalities for the payment of interest on, and principal of, notes and bonds of the Housing Authority. Contributions on account of subsidies under this chapter are not to exceed \$5,000,000.00 in any one year. For the maximum period of forty years, subsidies alone might, therefore, amount to a total of \$200,000,000.00.

The previous audit report of the Commission on Administration and Finance issued by this Department indicated that the State Housing Board, representing the City and Town Housing Authorities, guaranteed bonds and notes of Authorities to the extent of \$127,942,000.00 as of June 30, 1950, and obviously represents a contingent liability of the Commonwealth as of that date.

The audit report of the State Housing Board issued by this Department on July 24, 1950, in referring to financing arrangements made by existing statutes stated as follows:

"Financing: Although bonds issued for construction of housing units have the advantage of the financial backing of the Commonwealth, each local housing authority will issue its own bonds. It is anticipated that the interest rates on these issues will vary, despite the common State guarantee, and that the rate will be higher than the rate of interest paid on regular State bonds. This will place an additional burden upon the entire program, and it is recommended that the chairman seek amendment to the present statute to provide that all bond issues, shall be made in the name of the Commonwealth."

The recommendation is again urged.

Veterans' Services Fund: This report presents a detailed statement of receipts and disbursements in the Veterans' Services Fund.

Income to this fund is derived from -

- | | |
|---|---|
| I Cigarette Tax | - provided by Section 9 of Chapter 731 of the Acts of 1945. This tax has been set up for an indefinite period. |
| II Alcoholic Beverages Tax | - Provided by Section 11 of Chapter 731 of the Acts of 1945. This tax has been set up for an indefinite period. |
| III Business Corporation Tax and Surtax | - provided by Section 10 of Chapter 731 of the Acts of 1945, as amended by Section 10A of Chapter 581 of the Acts of 1946, as further amended by Chapter 503 and 574 of the Acts of 1948 and Chapter 674 of the Acts of 1949. |
| IV Certain Unclaimed Funds | - provided by Chapter 694, Acts of 1949, amended by Chapter 523, Acts of 1950 |

In addition, Section 8 of Chapter 669 of the Acts of 1948 provides in part as follows:

"All income, including federal subventions and grants, received by the Commonwealth from or on account of veterans in payment for veterans' services, shall be credited to the Veterans' Services Fund."

(The veterans' services mentioned in the above Act are those which are paid for from appropriations made from the Veterans' Services Fund)

Contingent Debt - Sinking Fund Surplus: It was noted that a Sinking Fund Surplus existed in each of the following Loan Sinking Fund Accounts as of the date of audit.

<u>Account</u>	<u>Sinking Fund Bonds Matured</u>	<u>Surplus</u>
Charles River Basin Loan	Jan. 1, 1950	\$201,300 18
Metropolitan Parks Loan	Jan. 1, 1949	28,892 44
Metropolitan Parks Loan, Series #2	Jan. 1, 1949	10,818 33
Metropolitan Sewerage Loan - No. System	Jan. 1, 1949	25,609 71
Metropolitan Sewerage Loan - So. System	Jan. 1, 1946	421,053 90
Total		<u>\$687,674 56</u>

It is suggested that steps be taken to legally arrange the distribution of these surplus items to the various communities involved.

STATE TEACHERS COLLEGE AT LOWELL

REPORT No. 51-49

Accounts Receivable: It was noted that the refunds and rebates are not processed through the accounts receivable control account. It is recommended that compliance with the Comptroller's Bureau Accounting Manual be made in this connection.

DIVISION OF BANKS

REPORT No. 51-51

Central Organization Fund: The balance in the Central Organization Fund on date of audit was \$1,124.58. There were no receipts in this Fund during the current audit period.

This warehouse contains book records of seven banks which were closed by the Commissioner of Banks and ultimately went into liquidation. It also contains documents or articles found in various safe deposit boxes of these banks which had been rented by persons whose present addresses are unknown. The contents of these boxes have been removed and placed in individual envelopes by a notary public in accordance with statute prior to being turned over to the Commissioner by the Director of Liquidations.

These envelopes include lapsed insurance policies, presumably worthless stock certificates, outlawed promissory notes, and similar documents which apparently are of no value to the Commonwealth.

Although the Commissioner was obliged to hold these papers only until August 31, 1949 under Section 35A of Chapter 167 of the Tercentenary Edition of the General Laws, as amended by Chapter 122 of the Acts of 1943, they are still being stored at this particular warehouse. It is suggested that steps be taken to dispose of this property in accordance with this aforementioned statute.

Examination of Banking Institutions: Costs of examinations of trust companies, savings and loan associations, and Morris Plan banks are paid by the banks concerned. Charges for examinations of co-operative banks, credit unions, and savings banks are based on a percentage of the assets of the institutions concerned and do not in every case cover the complete cost of the examination.

In the period from December 6, 1949 to November 29, 1950, the costs and reimbursements were as follows:

	<u>Costs</u>	<u>Reimbursement Billings</u>	<u>Difference</u>
Miscellaneous Financial Institutions	\$ 893 26	\$ 893 26	-
Savings and Loan Associations	3,206 61	3,206 61	-
Other Banking Institutions	8,032 84	8,032 84	-
Credit Unions	58,089 42	22,809 78	\$ 35,279 64
Trust Companies	152,208 11	152,208 11	-
Co-operative Banks	175,725 97	141,220 32	34,505 65
Savings Banks	239,433 99	191,579 28	47,854 71
	<u>\$637,590 20</u>	<u>\$519,950 20</u>	<u>\$117,640 00</u>

TEWKSBURY STATE HOSPITAL AND INFIRMARY

REPORT No. 51-52

Various Thefts at the Institution: From a review of the minutes of the Board of Trustees' meetings for the period under examination references were noted to certain instances of missing property. These apparently included the following:

- A quantity of gravel
- Thirty to forty radiators from one of the empty buildings
- Twenty-four pigs from the farm

The illegally removed gravel was billed to a neighbor of the institution for \$136.50 in January 1950, who apparently acknowledged having taken the property. In November 1950 a payment for \$45.50 was made. It was noted however that an adjustment for \$91.00 was made on the original bill with the approval of the trustees thus disposing of the matter.

The whereabouts or the responsibility for the missing radiators and pigs is still unknown. A report of these thefts has been made to the State Police. It is suggested that immediate steps be taken to more adequately protect State property so that incidents of this nature will be eliminated.

Cash Book: It was noted that the State Cash Book is not proved and reconciled daily. This is contrary to the Comptroller's Bureau Accounting Manual which states:

"The Cash Book balance should be proved each day with the amount of cash on hand and in bank."

It is recommended that this procedure be compiled with so that the possibility of a recurrence of the overage of \$37.40 in the State cash on the date of audit will be eliminated.

It was also noted that items of income are remitted to the State Treasurer once a month. Under the provisions of the Tercentenary Edition of the General Laws, Chapter 30, Section 27, the longest period of time in which fees may be retained for remittance to the State Treasurer is weekly unless specific authorization is arranged to the contrary. It is therefore suggested that this statute be complied with.

Bonding of Employees: It was again noted that certain employees in the Treasurer's office who handle cash are not bonded. Conditions in this office often require these non-bonded employees to handle large amounts of money originating from the sales of meal tickets and patients' cash.

It is, therefore, again recommended that all those whose duties involve handling cash be bonded.

Pay Roll Bank Account: In reconciling the pay roll bank account forty-one checks were listed as outstanding, which were over one year old. The following schedule shows the analysis of these outstanding checks by year of issue:

<u>Year</u>	<u>Number of Checks Outstanding</u>
1942	1
1943	2
1946	3
1947	2
1948	28
1949	5
	<u>41</u>

Attention is called to the fact that in reconciling this account ten adjustments were necessary. These adjustments were caused by error which occurred during the previous seven months and were occasioned by typographical errors on the checks and under or overpayments to certain institution employees.

It is, therefore, recommended that the outstanding checks over one year old be handled in conformance with the method outlined in the Comptroller's Bureau Accounting Manual. The ten adjustments, previously referred to, should be promptly made. It is further suggested that all such adjustments be made as soon as the original error is recognized.

Suspensions and Disallowances: Certain pay roll and petty cash items were not im-

mediately reimbursed during the period. The suspended items were not recorded in the manner prescribed in the Comptroller's Bureau Accounting Manual. The failure to properly record these items resulted in several overdrafts in the cash at the close of the fiscal year and presented other accounting difficulties in connection with the reconciliation of the advance money.

Sales Slips: A continuation of the practice of recording both charges and payments on sales slips as discussed in the previous audit report, was noted. Recording the payments on sales slips, duplicates the original charge and inflates the Accounts Receivable charges. It is again suggested that the Standard Receipt Book form number C. B. 23 be used in lieu of the sales slips, to record part payments, etc., of accounts receivable.

In several instances, corrections of arithmetical errors were made on the original sales slips, without making corresponding corrections on the other two copies of the sales slips. This practice naturally confused the proper recording of the transactions of this nature.

Suspense Accounts Receivable: Balances in the Accounts Receivable records totaling \$133.40 that have remained unpaid since 1949 and prior years should be referred to the Attorney General for disposition and a Suspense Accounts Receivable account should be set up for them in conformance with a suggestion in the previous audit report.

Meal Tickets: It was noted that there were no complete nor adequate records reflecting the number or the identity of free tickets issued and the amounts of unused tickets refunded were not completely accounted for. This matter was the subject of detailed comment in the previous audit report and it is therefore again recommended that adequate records be maintained so that the values of these free tickets can be more readily ascertained. It might perhaps be wise to have the recipients of free meal tickets sign for them on a form designed to also indicate their right to receive them.

It is also recommended that all meal tickets refunded be held in a separate file until they are audited.

Materials and Supplies: The stock ledger on the date of audit indicated 517.38 tons of bituminous coal to be on hand whereas the Weekly Fuel Report as of the same date showed only 152.78 tons on hand. The difference of 364.60 tons resulted from an error in posting to the stock book. It is recommended that an adjustment be made so that the true balance of bituminous coal will be reflected on the stock ledger.

It was necessary to physically inventory the beef and ham two times in order to reconcile these items with the stock ledger balances. The results of the two reconciliations still showed substantial unexplained overages.

Farm: A review of the farm records for the 1949 farm year showed that 988 hens and 1,029 chicks had died and 265 hens were unaccounted for. These items represented respectively, 22% and 12% of the total hens and chicks processed for the year. The probable cause of the high mortality offered in explanation by an institution official was heat prostration during the summer of 1949. It is recommended that more definite reasons should be ascertained for what appears to be excessive mortality in order that such heavy losses may be reduced in the future.

Patients' Funds: It was noted on the date of the audit, that there was a total of \$27.98 in overdrafts representing 37 items. It was further noted that there was a total of \$438.85 representing accumulated interest in the patients' funds cash account which could not apparently be disposed of. The matter of these overdrafts and the accumulated interest has been the subject of much comment in previous audit reports, and it would seem that some disposition should be made of this money and it is again suggested that a further determination in this respect be made.

Included with the patients' bankbooks are ten belonging to patients who have been deceased more than seven years. The proceeds of these books should be disposed of in accordance with statute. It was further noted that there had not been any attempt during the audit period to contact discharged patients relative to their bankbooks which were held by the institution. However, while the current audit was in progress, tracing letters were sent to discharged patients.

The previous audit report also stated:

"It was also noted that the institution does not take a trial balance of the

patients' cards each month. Because of this great deal of difficulty was experienced in taking a trial balance of the patients' cards in connection with this audit. The difficulties experienced were in the main due to errors in posting in previous months. These errors would have been reduced if a trial balance were taken monthly. It is, therefore, recommended that a trial balance of the patients' cards be taken monthly."

As the same condition as above still prevails attention is again called to it.

Community Store: Cash receipts are entered daily in the Community Store Cash Book from the total of cash register tapes, which are imprinted and therefore do not represent the actual cash received. In this connection several tapes were spot checked with the cash book entries and it was noted that almost daily there were discrepancies varying from \$.90 to \$2.50, between the tapes and the actual cash received. No valid explanation of the differences were offered by any of the responsible employees.

Adjustments between the tapes and actual cash are made at the end of each month from a so-called over and short account to bring the cash receipts into agreement with the register readings. It was noted that the over and short cash was kept in the institution treasurer's office in an envelope. This money apparently had no connection with the books nor with the Community Store cash except for the above mentioned monthly adjustments.

The cash "over and short" in the referred to envelope on the date of audit was \$153.70. An attempt was made to reconcile this cash picking up the amount reported in this category on hand on the date of the next preceding audit and by taking into consideration the known receipts and disbursements, with the result that \$58.28 in the envelope could not be accounted for. Some of this money, it was determined was traced to the placing of Patients' Fund Cash overages into this "account". It could not be determined, however, how much money had been so transferred. It is again suggested that probably these overages were the proceeds from sales that were not properly recorded.

It is strongly recommended that this "over and short" fund be immediately transferred to the Community Store Cash and recorded as miscellaneous income. This fund should be permanently abolished and all monies actually received, whether or not it was recorded on the cash register tape, should be deposited daily. The responsibility for shortages should be placed, insofar as is possible, on the employees handling money in the store. The intermingling of Patients' Cash with the Community Store Cash should of course be immediately discontinued.

During the period from December 12, 1949 to December 11, 1950, the following payments from the Community Store Cash were made for "Benefits":

Books and Magazines	\$ 185 46
Newspapers	716 85
Textiles	18 84
Dyes and Paints	13 72
Television Sets (23)	5,840 80
	<u>\$6,775 67</u>

It was noted that 19 of the television sets were in patients' quarters and 4 were in employees' quarters.

An inventory taken in connection with the current examination to prove the Store sales for the audit period, indicated a shortage of \$726.70 which is approximately 1.75% of the sales for the period.

The following suggestions are again offered to aid in reducing the shortages and overages of merchandise.

1. After the merchandise received is checked to the receiving slip, as is now the custom, the receiving slip should be retained until the invoice is received. Upon receipt of the invoice it should then be checked to the receiving slip for accuracy. If both items agree the receiving slip should be attached to the invoice and forwarded to the institution Treasurer for payment.

2. Physical inventories of the Community Store should be taken at least three times a year and reconciled to the book inventory.

During the taking of the physical inventory, it was found that many items kept in stock are either obsolete or unsaleable at the sales prices indicated. Some of these items have been in the store for many years and consist of the following: war greeting cards, side-

combs, stockings, V-mail, soap, certain types of razor blades, and old fountain pens. All of these items should be marked down for quick disposal or sold to some other agency where they may have some use, written off as spoilage or given to the patients as gifts.

It was noted that check numbers for payments made did not appear in the Cash Disbursements book. In many instances the dates of the checks as recorded in the check register did not agree with the corresponding item in the Cash Disbursements book. It is recommended that check numbers be inserted with the item in the Cash Disbursements book, and that dates of payment in the cash book should be in agreement with the dates that checks are drawn in the check register.

Unpaid Checks in the Various Funds: In the State account there were noted twelve outstanding checks over a year old. These should be handled as prescribed by the Comptroller's Bureau. In the Community Store Fund there were nine outstanding checks over a year old. All nine checks were issued to the postmaster at Tewksbury during the years 1945, 1946, 1947 totaling \$184.01. The postmaster has repeatedly been asked to put the checks through for payment but has failed to do so. In the Patients' Fund there were found ten outstanding checks over a year old. The matter of outstanding checks held in excess of one year has been the subject of comment in previous audit reports, and it is, therefore, again recommended that steps be taken to clear up these situations.

DANVERS STATE HOSPITAL

REPORT No. 51-53

Unpaid Pay Roll Checks: It was noted that there were three pay roll checks totaling \$75.39 which have been outstanding for more than three months. In this connection, the Comptroller's Bureau Accounting Manual states as follows: "In the case of checks issued on account of salaries or wages, payment must be stopped three months after date of issue." It is, therefore, recommended that payment be stopped on the aforementioned checks in compliance with this provision.

Funds of Deceased Patients: On the date of audit there were deceased patients' funds on hand for more than one year in the aggregate amount of \$171.01. It was learned from the Department of Mental Health that a letter dated February 7, 1945 was sent to all institutions within that Department with instructions to the effect that such funds were to be sent in to the Department thirty days after the death of a patient if no administration had been taken out on the patient's estate during that time. It is, therefore, suggested that these funds be turned over to the Department of Mental Health for disposition.

Meal Tickets: When unused meal tickets are turned in to the treasurer's office for a refund, they are placed in an envelope and attached to the sales slip which records the original sale of the tickets. The amount of refund is then deducted from the total sales figure. It is recommended that all of the tickets thus turned in be stamped "void" to prevent the possibility of any further use.

Maintenance Charges for Rental of Rooms: A schedule was compiled to show the potential income from the rental of rooms to employees at this institution. A card file kept by the housekeeper was used for the most part to develop the information necessary to set up the schedule. However, the accuracy of the data assembled is questioned because of the fact that some cards do not show the date when occupancy began or ended, or whether or not a room was vacant and for how long. It is recommended that the Comptroller's Bureau set up a new record or improve the present method of recording this data so that complete current information may be available at all times.

The housekeeper should be kept regularly informed by the various supervisors of employees as to their status with regards to room occupancy. If an employee is permitted to change rooms, thereby effecting a change in rate, the housekeeper should promptly notify the treasurer so that correct pay roll deductions for maintenance may be made. There is now obviously a lack of co-ordination between the supervisors of employees, the housekeeper, and the treasurer's office which creates inaccuracies in the records.

A review of the rates charged for these rooms has indicated apparent inequities in some cases. For example, in one building the rate for a single room without bath on the first floor is \$7.90 per month. In the same building, there is a rate listed for two rooms without bath at \$3.90 per month. It is, therefore, recommended that the Commission on Administration and Finance make a further survey of all rates with a view to eliminating any inequitable charges.

It is also recommended that the institution authorities survey all rooms periodically

to see that no unauthorized persons occupy rooms.

DEPARTMENT OF LABOR AND INDUSTRIES

GENERAL DEPARTMENT

REPORT No. 51-54

Monthly Financial Statements: In this connection, the previous audit report stated:

"Many of the monthly financial statements do not show the usual cash schedule. It is advised that this schedule should be included in every monthly statement."

It was noted that the monthly financial statements for the months completed through September 1950, now include the cash statements.

Apprentice Training: In this connection, the previous audit report stated:

"A new agreement between this Department and the Veterans Administration was negotiated as of July 1, 1949. Official notification of the signing of the agreement was not received by this department until January 1950. As a result of the delay in acknowledgement, no reimbursements from this source have been received for the current fiscal year. As of January 31, 1950 the outstanding balance was \$35,472.78. It is understood that these schedules had been processed for payment and reimbursement will be made in the near future."

The outstanding balance of \$35,472.78 due the Division of Apprentice Training from the Federal Government as of January 31, 1950 was received in March 1950. A new agreement was negotiated between the Department and the U. S. Veterans Administration as of July 1, 1950.

General Office: The cash book recapitulation of receipts and disbursements of the various divisions does not include any notations on bad checks received. It is suggested that a memorandum entry be made at the end of each month for all bad checks received.

Division of Industrial Safety: Effective March 1, 1950, fees for Rigging and Painters' Riggers were changed to agree with the biennial issue under Industrial Bulletin No. 13, Rules and Regulations and Recommendations Pertaining to Structural Painting.

Certificates and Permits: It is suggested that all applications for certificates and permits be prepared in duplicate for reference purposes. These forms would allow for establishing two files, one alphabetical and one for date cash was received. Dates, names, application and certificate numbers should be entered on the forms for purposes of ready reference and easy identification.

The reconciliation of the income recorded in the Division of Industrial Safety with like income recorded in the Comptroller's Bureau indicated a variance of \$6.00. This was the result of a bad check being returned by the bank, which was recorded in the State Treasurer's records but not by the Division. A copy of the letter from the State Treasurer to the Division Director was on file in the office of the State Treasurer, but was not available in the Division files. In this particular instance the name of the applicant could not be identified because of lack of cross reference information.

It was further noted that a total of thirteen bad checks and a returned postal note were being held in the Division files, which had not yet been redeemed. The bad checks were dated between March 21, 1949 and July 26, 1950, and totaled \$36.00. The postal note for \$1.00 was dated June 28, 1948, and was returned by the bank because it had been drawn 60 days before the deposit date.

Although the amounts involved are small, for purposes of proper record keeping they should be shown as accounts receivable outstanding until collected, as they are in the same category as delinquent accounts. They should, of course, be collected or disposed of in accordance with accepted procedures.

Cash receipt books are used by the Division at the counter in the main office. It is suggested that all used receipt books be kept until after they have been audited.

Division of Apprentice Training: The agreement between the Federal Government and the Department signed June 30, 1950, became effective July 1, 1950 and will continue through June 30, 1951. The Federal Government authorizes reimbursements of \$45,705.00

for that twelve-month period. As of December 11, 1950, vouchers for October and November, 1950, had not been reimbursed. The total of the two vouchers was \$6,864.10.

Personal services of this Division for the fiscal year ended June 30, 1950, totaled \$122,263.55, \$9,170.00 permanent and \$113,093.55 temporary. It was noted that all have been included in appropriations for permanent personnel under Chapter 825, Item 3516-101, Acts of 1950, dated August 19, 1950, retroactive to July 1, 1950.

REFORMATORY AT CONCORD

REPORT No. 51-55

Unpaid Check Fund: The previous audit report indicated the following:

"The reconciliation of the special pay roll bank account indicated that an unpaid pay roll check, in the amount of \$55.26, has been designated as an outstanding check, for over a year on the institution records.

"There were also four checks totaling \$6.10 drawn on the Inmates' Fund account which have been outstanding for more than one year.

"It is recommended that payment be stopped on these checks and the proceeds be disposed of in conformance with the instructions in the Comptroller's Manual."

It was noted that the foregoing recommendation has been complied with.

Bookkeeping - General: It was noted that many journal entries do not include sufficient information, often showing only amounts. It is suggested that each entry be completely explained.

Farm Accounts: It was noted that the analysis of the distribution of the farm costs is not properly handled in the farm ledger. It is also suggested that some care be taken in making the entries in this farm ledger as many evidences of carelessness were noted in connection with the current examination.

It was further noted that the amounts indicated on the farm records for shrinkage appear to be lower than amounts normally noted in this respect. The records indicate only the following percentages:

	<u>Shrinkage Per Records</u>	<u>Spoilage Per Records</u>
Beets	2.7%	-
Onions	31.7%	-
Cabbage	-	-
Carrots	-	-
Parsnips	-	-
Winter Squash	-	-
Turnips	-	-
Alfalfa	-	-
Clover	-	-
Rowen	-	-
Timothy	-	-
Ensilage	-	2.16%

Production: The following average production records were noted per the records on certain crops:

Milk	4,644	quarts per cow per year
Potatoes	117	bushels per acre
Ensilage	14.47	tons per acre
Eggs	194.7	per hen per year

Industries - Relation of Selling Prices to Cost: During one month covered by the current examination, a comparison was made between costs and selling prices in the Cloth Department. In this connection it was noted that in eleven of the fourteen invoices tested, the selling prices were substantially lower than the computed cost per the records. These items include the following :

Item	Per Unit		Total Invoice	
	Cost	Selling Price	Cost	Selling Price
Toweling	\$ 463	\$ 22	\$ 146 83	\$ 69 77
Sheeting	1 035	60	72 32	41 93
Mackinaw	3 67	2 50	169 28	115 31
Toweling	463	22	235 20	111 76
Shirting	1 25	65	70 31	36 56
Ticking	1 616	77	148 87	70 94
Blankets	13 90	7 00	1,390 00	700 00
Blankets	8 04	5 30	8 04	5 30
Toweling	444	23	120 32	62 53
Blankets	5 11	4 90	2,555 00	2,450 00
Blankets (Baby)	3 73	2 50	134 28	90 00

In this connection it was noted that as of November 30, 1950, including only five months of operation during the fiscal year, this particular industry indicated an operating loss of \$12,599.02. On this basis, if the same ratio of loss prevails for the remainder of the current year, a loss from operations of approximately \$30,000.00 will develop. It is suggested that immediate steps be taken to bring selling prices more in line with actual costs.

Industries - Heat, Light and Power: In this connection it was noted that, Heat, Light and Power charges have increased from \$10,538.00 in the 1934 year to \$34,359.00 in 1950, an increase of 226%. Of these, the Cloth Industry bears 75% and the Furniture Industry the balance. The Auto Repair Industry, however, bears no part of these charges. It is suggested that the basis for these charges be reviewed, so that the departments involved may bear their respective shares of the true costs.

Industries - Outstanding Accounts Receivable: It was noted that there are several institution employees, who owe for auto repair work. Some of the bills have been outstanding since 1948. It is suggested that these items be turned over to the Attorney General for disposition. It is further suggested that steps be taken to arrange for payments for the work before the automobiles are returned to their respective owners.

It was also noted that the Tewksbury State Hospital has owed a bill for \$211.45 since 1940. Apparently the only reason this has not been paid, is because there are no available funds for this purpose at this time. It is suggested that this matter be turned over to the Department of the Attorney General for disposition.

COMMISSIONER OF VETERANS SERVICES

REPORT No. 51-56

Spanish War Reimbursement Fund: On the date of audit the balance of cash in the principal account was \$418.50, and in the income account \$839.50 or a total cash on hand of \$1,258.50. A review of expenditures for the past 10 years indicates that in only one year did the expenses exceed \$300.00 which has been less than the income received each year from investments.

Accounts Receivable Control: The Accounts Receivable control account includes only assessments and certain miscellaneous items. Other revenue was recorded directly in the income account as were also the refunds of receipts vouchers.

It is recommended that the procedure set forth in the Accounting Manual for the handling of the Accounts Receivable be followed.

It is also noted that Accounts Receivable control account balance after closing June 30, 1950 was shown as \$2,203.68. The correct balance after closing should have been \$1,952.23, a difference of \$251.45.

It is suggested that this account be corrected so that the true balance will be indicated.

TAUNTON STATE HOSPITAL

REPORT No. 51-57

Maintenance Stores: The personnel situation at this institution which has been disturbing during the past several years has become normal. In this connection it is stated that conditions in the storeroom as a whole, are much more satisfactory.

The difference noted in the test inventory taken during the course of this audit appeared

to be consistent with those normally encountered.

Some of the adjustments made seemed excessive. It was learned, however, that this was due to the fact that the accounts involved had not been properly adjusted for approximately two years.

House and Room Rent: In accordance with a suggestion made in the previous audit report a so-called "Work Sheet Register" to control rents has been installed and it appears that this record is adequate for the purposes intended.

Farm Accounts: It was noted that the farm reported a total loss of \$15,746.90 for the 1949 year. This was attributed to the high purchase price of grain and supplies; the purchase of some new equipment and the low prices which are allowed for farm products. A contributing factor was the drought in the 1949 growing season.

The examination of the livestock records for 1949 showed a substantial reduction in the mortality rates for shoats and pigs. The cause of the high mortality rate in 1948 was ascribed to necrotic enteritis (swine dysentery) and apparently, this epidemic subsided in 1949. The percentage of comparable losses for the 1948 and 1949 farm years in these respects were as follows:

	<u>1948</u>	<u>1949</u>
Shoats	21.40%	5.52%
Pigs	35.69%	18.66%

COMMISSION ON INTERSTATE CO-OPERATION

REPORT No. 51-58

Unencumbered Allotments: It was noted that the unencumbered balance of allotments in the Allotment Expenditure Control Register did not reflect the amount available for expenditure. As a result certain items were scheduled for payment when no funds were immediately available under the allotment.

It is, therefore, recommended that the Allotment Expenditure Control Register be kept in accordance with the instructions published in the Comptroller's Manual.

OUTDOOR ADVERTISING AUTHORITY

REPORT No. 51-59

Employees Bonded: In this connection the previous audit stated:

"It was noted that although a senior clerk is bonded for \$2,000.00, another clerk handling considerably more money is not bonded. It is suggested that all employees handling funds be bonded."

It was noted that the only employee now handling cash is bonded in compliance with this suggestion.

General Bookkeeping: The previous audit report included many suggestions relative to shortcomings in the bookkeeper's records of this agency. In this connection a substantial improvement was noted in these records during the current audit period.

Renewal Permits: Three books of renewal permits could not be located for use in connection with the current audit. The cash received, however, was reconciled with permits actually issued.

Licenses to Engage in the Business of Outdoor Advertising: Up to June 16, 1949 a printed serial numbered license form had been used. The rules and regulations of the Authority called for a payment of an application fee of \$25.00 to \$300.00 according to type of business.

It is suggested that the rules and regulations of the Authority be changed to make the fee apply to the license issued rather than application.

If this change is made the printed serial numbered license forms may be used, as there is a sufficient quantity on hand to meet the needs of the Authority for some time.

At the date of audit a plain unnumbered license form was issued.

BOSTON STATE HOSPITAL

REPORT No. 51-61

Funds of Discharged Patients: Previous audit reports have commented on the large

number of outstanding balances due to "no longer at the hospital" patients. On the date of audit there were 242 such accounts consisting of \$608.42. It is suggested that an exhaustive survey be made of the possibilities of disposing of these items.

Patients' Funds - Savings Books: On date of audit there were 81 bankbooks in the custody of the institution treasurer with balances totaling \$19,748.80. There were also bonds, stock certificates, and checks totaling \$7,427.33 in value.

Suspended Pay Roll Vouchers: On the date of audit there was a \$626.97 balance in this account. During the course of this audit an item of \$609.96 was resubmitted for payment and approved leaving a balance in this account of only \$17.01.

Escrow Retirement Fund: The previous audit report commented on checks that had been outstanding over one year. It was noted that these checks have been turned over to the State Treasurer in accordance with the regulations in the Comptroller's Accounting Manual.

STATE TEACHERS COLLEGE AT SALEM

REPORT No. 51-63

Endowment Funds: The previous audit report recommended that accounts be set up in the general ledger for the principal of the Amanda Parsons Fund and the Susan Barker Fund. As this recommendation has not been followed it is again brought to the attention of those concerned.

Accounts Receivable: Journalized charges to accounts receivable show only the total charges for semester fees. Considerable difficulty was encountered in verifying this particular source of income as the original list from which the entry was made, indicated many changes after the original entry was made. It is suggested that a copy of the original list be attached to the journal entry and all variations from the original list be made elsewhere.

Amanda Parsons Fund: The principal of this fund is held by the State Treasurer in cash (\$150.00). Inasmuch as the principal cannot be expended, it is suggested that this fund be invested that the income, however small, may be available.

Book Store and Cooperative Society: The accounts of these two activities were not examined in connection with the current examination.

MASSACHUSETTS HOSPITAL SCHOOL

REPORT No. 51-64

Bookkeeping - General: As was the case in recent audits it was again noted that the bookkeeping was considerably in arrears. This created a delay in the audit while the books were being entered currently. It is suggested that the work in the Treasurer's office be surveyed to see whether or not it can be distributed on a different basis.

Unpaid Bond Fund Check: There is a check which has been outstanding in the Savings Bond Fund in the amount of \$10.25 since August 1949. Apparently no instructions have been issued regarding the disposition of such checks, so it is suggested that the general instructions regarding unpaid checks be applied in this instance.

Accounts Receivable: Considerable difficulty has been encountered in collecting for the sales of cinders. It is recommended that all such sales be put on a cash basis to be loaded only on presentation of a paid sales slip. It was also noted that occasionally garage rents are allowed to accumulate for five and six months before they are collected. These items should be promptly collected monthly.

It is also suggested that all outstanding board accounts be reviewed with the view of turning those in arrears over to the Attorney General for collection or disposition.

Farm Accounts: The installation of a new and more modern herd record is recommended. It was also noted that the herd book and census reports do not agree as to dates in some cases, for example:

	<u>Per Herd Book</u>	<u>Per Census Report</u>
Cow "Camelia" Calved	December	January

Cow "Myra" Calved
Calf from "Nancy Lamb" Sold

August
December

September
January

The annual report shows farm sales of \$701.40 while the financial reports show \$1,718.69, a difference of \$1,012.29. This was caused by the following items being charged to the storeroom instead of the farm:

Milk Sold	\$ 961 55
Vegetables Sold	50 74
	<u>\$1,012 29</u>

Farm production, products used, production to storeroom and farm storage, did not appear to be in agreement with the respective control accounts in the general ledger.

Maintenance Charges: There appeared to be no way in which the income from these sources could be adequately audited. It is therefore suggested that the Comptroller's Bureau install a system which will provide a more reasonable control of this income.

Endowment Fund: The propriety of crediting to the Endowment Fund the commissions received from vending machines installed in various parts of the school is questioned.

DEPARTMENT OF PUBLIC WELFARE

GENERAL DEPARTMENT

REPORT No. 51-66

Old Age Assistance - State Share: For the 1951 fiscal year an appropriation of \$32,500,000.00 was granted. To December 31, 1950, a total of \$28,831,726.82 was expended, leaving a total unexpended balance in the appropriation and allotment accounts of \$3,668,273.18. On the date of audit the records in the department indicated that, exclusive of the City of Boston, bills for the months of November and December 1950 totaling \$4,364,489.15 have been submitted, audited, and approved for payment, but have not been paid because no funds were available. In this connection, attention is called to the fact that the City of Boston bills have been audited only through November 1949, although estimated amounts have been paid through October 1950. On this basis, it now appears that the total of the bills submitted for payment but not paid will be increased to approximately \$18,000,000.00 by June 30, 1951. At present, it is not the practice to record such liabilities in the department general ledger, and it is, therefore, suggested that the Comptroller's Bureau be requested to provide for the recording of such liabilities in the department general ledger so that the true financial status may be readily apparent.

Old Age Assistance and Aid to Dependent Children - State Share - Payments to Cities and Towns: During the fiscal year ended June 30, 1950, disbursements of \$25,410,157.24 were made to cities and towns as reimbursements for payments by the local welfare agencies for "Old Age Assistance." During the same period \$4,801,266.23 was disbursed to cities and towns as reimbursements for expenditures for "Aid to Dependent Children." The disbursements by the department were for various periods up to December 31, 1949. Statements Nos. XX and XXI of this report show the payments made during the fiscal year together with the periods covered by the respective payments.

Appropriations for Reimbursement to Cities and Towns - Aid to Dependent Children: On December 31, 1950, there was a total unexpended balance in both the appropriation and allotment accounts totaling \$115,404.40. On the same date the department records show total bills submitted, audited and approved but not paid, totaling \$2,512,288.35. Of this amount, \$2,031,700.13 is for the cities and towns, with the exception of the City of Boston, and includes the period from July 1, 1950 through December 31, 1950. The balance of \$480,588.22 represents audited bills of the City of Boston for the months of June, July and August, 1950. In addition, it was noted that City of Boston bills which have been received and not audited, for the months of September, October and November, 1950, aggregated \$485,311.31, making a total of known unpaid bills of \$2,997,599.66 as of January 25, 1951.

Appropriation for Reimbursement to Cities and Towns - Temporary Aid and Transportation: The unexpended balance in the appropriation and allotment accounts of this appropriation on December 31, 1950 was \$516,272.28. The department records further indicated that bills have been submitted totaling \$294,534.35 to March 1, 1951. These bills,

however, are for the fiscal year ending June 30, 1950. In this connection, it is noted that Chapter 121, Section 42, of the Tercentenary Edition of the General Laws permits invoices being submitted by cities and towns for a period of eight months after the close of a fiscal year.

Appropriation for Reimbursement to Cities and Towns - Burial of Indigent Persons: The unexpended balance in the appropriation and allotment accounts of this appropriation on December 31, 1950, totaled \$14,338.59. During the month of January 1951, \$1,111.14 was expended and one disputed bill in the amount of \$107.61 was still outstanding on the audit date. Approximately \$10,000.00 of City of Boston bills, which are expected, had not been received as of March 1, 1951. In the audit report of the previous examination attention was called to the fact that there were unpaid bills totaling \$8,000.00 against this account. These were paid from the 1951 appropriation.

Appropriation for Reimbursement to Cities and Towns - Contagious Diseases: The unexpended balance in the allotment account of this appropriation on December 31, 1950 totaled \$35,014.76. Vouchers submitted by the cities and towns with the exception of Boston have been paid only to June 30, 1950. Bills submitted by the City of Boston to June 30, 1950, which are still unpaid, totaled \$31,812.20. Of this amount, invoices totaling only \$17,580.00 had been audited by the department. For the 1951 fiscal year the City of Boston bills which were submitted to March 1, 1951, and had not been audited, totaled \$49,954.00 including Haynes Memorial Hospital bills totaling \$25,109.00. Bills from cities and towns other than Boston which will be due September 1, 1951, are not expected to be submitted before August 1951.

Appropriation for Reimbursement to Cities and Towns - Support of Indigent Persons: On December 31, 1950, the total unexpended balance in the appropriation and allotment accounts of this appropriation totaled \$193,117.40. Bills paid in January 1951, totaled \$23,193.67, and bills scheduled for payment amounted to \$36,164.06. Bills on hand as of March 1, 1951, which have not been scheduled, totaled \$115,000.00.

Appropriation for Reimbursement to Cities and Towns - Tuition and Transportation of Children: The unexpended balance in the allotment account of this appropriation on December 31, 1950, was only \$229.47, of which \$139.20 was paid in January 1951. It was noted, however, that bills submitted to March 7, 1951, representing all liabilities for the 1951 fiscal year aggregated \$47,702.64.

Division of Child Guardianship

Infant Boarding Home Licenses: Refunds of license fees are now being handled correctly, in accordance with the suggestion in the previous audit report. At the date of audit licenses were being issued from the seven District Offices of this department and fees were being sent directly to the Division Office in Boston. District Offices were not visited in connection with the examination and the verification of income from licenses issued entailed a great deal of correspondence with the various District Offices.

It is suggested in order to effect a better control of this income, that the several District Offices send monthly reports to the Division Office in Boston of license forms on hand, licenses issued during the month, licenses voided, together with a list of pending licenses as of the last day of the month.

Refunds of Receipt Vouchers: The previous audit report stated that a refund of \$62.10 which was made in December 1948 was duplicated in April 1949. The first refund was to the grandparent of a child, and the duplicate refund was to the United States Government. Correspondence with the Federal Agency concerned relative to the return of the money has not yet brought about the satisfactory consummation of the transaction.

Reimbursements for Support of Children by Individuals: In addition to the reimbursements by cities and towns for the support of certain children, the department is also reimbursed by individuals, voluntarily or upon court order.

In the case of a child committed to the care of the division by court order, the court may order a parent to pay a designated amount for the support of that child. These payments are made by the parent directly to the probation officer of the court which has jurisdiction. The probation officer remits the amount collected to the Division of Child Guardianship.

A test check was made of the commitments to the department during the period covered by this audit. In this connection, it was noted that there were ten cases committed prior to December 31, 1950, with established settlements, and on which the bookkeeping section had apparently received no advice to start billing. The oldest of the ten cases noted was dated April 5, 1950.

It is suggested that all districts, including Boston, forward settlement information immediately to the Accounts Section so that billings may be started promptly. It is suggested that a register be maintained, together with a current intake card file, from which information regarding settlements, etc. could be forwarded to the Accounts Section for billing, immediately upon the determination of the proper settlement.

Comparison of Receipts - a/c Reimbursement for Support of Children: A comparison of receipts from direct payments for the 1949 and 1950 fiscal years indicate a decrease of approximately \$4,000.00 during the 1950 year. For the same periods the reimbursements from the courts indicate a decrease of about \$12,000.00 during the 1950 fiscal year.

It is suggested that if more attention were given to the collection of these support payments, perhaps larger collections would be possible.

Accounts Due from Municipalities a/c Child Guardianship: The previous audit report suggested that all accounts uncollected longer than one year be referred to the Attorney General for disposition. In this connection, a letter dated January 31, 1951 from the Comptroller's Bureau waived the rule of referring accounts one year old to the Attorney General for disposition and extends the period to two years.

Wards' Wages - Monthly Reports: Comments in the previous audit report in this connection have only been partially followed. It was again noted that some reports still lacked substantiating vouchers for purchases made for the ward, and that certain reports still do not have the required signatures.

Funds of Wards - Whereabouts Unknown: Unclaimed funds of State wards who cannot be located should be transferred to the State Treasurer in accordance with Chapter 618 of the Acts of 1941. No accounts were transferred to the State Treasurer during the audit period. As of the previous audit date, there were 13 accounts totaling \$395.31 in this category. During the audit period eight accounts totaling \$204.73 were paid to wards who were located and as of January 25, 1951, there were still ten accounts not located, totaling \$377.00, which are eligible for transfer to the State Treasurer.

Trustee Accounts: Included in the control total of the Trustee Accounts were two savings accounts which are in the name of "Christmas Fund" and "Vacation Fund." The balances in these two funds on January 25, 1951, follow:

Christmas Fund	\$ 187 57
Vacation Fund	871 08
	<u>\$1,058 65</u>

These funds are handled and disbursements are made at the discretion of the supervisors and visitors, and the funds are not confined to Christmas or vacation purposes.

It was noted that certain witness fees collected by department employees were credited to one of the funds. These witness fees should be turned over to the State Treasurer as department income in conformance with instructions from the Commission on Administration and Finance.

Rentals: An analysis of the annual property rentals listed as being paid by this Department, include the following:

600 Washington Street, Boston	\$70,000 00
107 Front Street, Worcester	5,200 00
232 Main Street, Brockton	3,900 00
46 Amesbury Street, Lawrence	3,600 00
196 Washington Street, Springfield	2,620 00
105 Williams Street, New Bedford	2,544 25

It was also noted that monthly garage rentals for the storage of automobiles used by department employees ranged between \$5.00 and \$20.00.

City of Revere - Overdue Accounts Collected: The Department Business Agent was notified by a letter from the Comptroller's Bureau, dated December 5, 1950, that \$18,068.43 had been collected by the Attorney General from the City of Revere on overdue accounts and had been turned over to the State Treasurer as Department income. The collection was made through the medium of the general state settlement of November 20, 1950.

It is suggested that the Department request the Attorney General to collect all such City and Town overdue accounts through the regular settlement on the next such settlement date, which will probably be on November 20, 1951. In this connection attention is called to the fact that of the balance of \$58,610.45 due the Division of Child Guardianship from Cities and Towns on January 25, 1951, its aging was as follows: 1947 and Prior, \$3,569.61; 1948, \$8,406.01; 1949, \$10,763.36; 1950, \$35,871.47, making a total of \$58,610.45.

Accounts Receivable - Overdue - Liability Denied: Letters received in reply to confirmation notices sent out on a test basis in connection with this audit indicated a denial of liability from the cities of Waltham and Somerville. In this connection the records of the division indicate that the City of Waltham owed \$12,840.97 as of January 25, 1951. Its denial is based upon the city's interpretation of Section 2, Chapter 123 of the Tercenary Edition of the General Laws. It is understood that an interpretation of this section has been requested of the Attorney General. A letter from the City of Somerville Board of Public Welfare denies liability of the \$4,122.90 purportedly owed for a child because of mental condition. The account is in the Division of Child Guardianship. The same letter denies liability in the amount of \$4,710.82 for three children at the State Infirmary, billed by the Division of Aid and Relief. It is suggested that this matter be referred to the Attorney General for disposition.

Accounts Receivable - Suspense Accounts: Accounts with balances referred to the Attorney General for collection should be set up in a Suspense Accounts Receivable control account. This is in accordance with the Comptroller's Bureau Accounting Manual. In this connection it was noted that such a control account has been set up in the general ledger of the Division of Aid and Relief, but had not yet been set up in the general ledger of the Division of Child Guardianship.

Basis for Billing Local Communities for Settled Dependent Children Placed by the Division: The present basis for billing is based on six different weekly board rates ranging from \$7.50 to \$10.00, and four clothing allowances from \$42.00 to \$70.00 per year. It is suggested that consideration be given to the advisability of making charges at flat monthly rates.

Storeroom: A test inventory of 235 items in the Materials and Supplies account was taken on January 25, 1951. The total book value of the items inventoried totaled \$20,476.99. The physical inventory value totaled \$20,455.05, indicating a net shortage of \$21.94 and comprised \$70.12 of shortages and overages of \$48.18.

The total book value of all materials and supplies in the storeroom on the date of audit was \$33,570.42. During the audit period the purchases totaled \$30,635.92 and the issues totaled only \$29,106.82, a very low turnover of stock.

Storeroom Issues to Temporary Homes: It was noted that of the total issues of \$29,106.82 indicated in the previous paragraph for the audit period, items amounting to \$13,889.13 were issued to so-called "Temporary Homes for Children". It was noted that these homes are not required to file reports showing the disposition of the articles of clothing, etc. received. It is again suggested that a monthly report be filed in this connection.

It was also noted that certain requisitions for clothing are signed in blank. It is suggested that all requisitions be completely filled out and be properly signed before being turned over to the storeroom.

General Relief - House Bill No. 89: This bill which is pending would bring reimbursements for General Relief into the same payment category as reimbursements for Old Age Assistance and Aid to Dependent Children, payments for which are subject to verification and adjustment by the department. A copy of the bill follows:

"An Act Relative to the Payment of Accounts Against the Commonwealth

"Be it enacted by the Senate and House of Representatives in General

Court assembled, and by the authority of the same, as follows:

"Section 42 of Chapter 121 of the General Laws, amended by Chapter 406 of the acts of 1941, is hereby further amended by adding at the end the following two sentences: - The approval of accounts by the department under this section shall have the effect of a provisional pre-audit of such accounts, and reimbursement based thereon shall be subject to verification and adjustment by the department. Such adjustments shall be made by reducing or increasing any subsequent reimbursements under this section by the amount of such adjustment."

Division of Aid and Relief - Accounts Receivable: In this connection the previous audit reports stated:

"Charges to cities and towns for board of inmates at the State Infirmary originate in the Settlement Division, where so-called billing cards are kept. Quarterly the cards are totaled on an adding machine and the cards, together with a memo showing the total of the billings, are sent to the Bureau of Accounts. There the cards are totaled on an adding machine, following which the bills are made out and the billing cards returned to the Settlement Division. It is suggested that any differences between the Settlement Division totals and the Bureau of Accounts be shown on a reconciliation sheet which should be kept for audit purposes. Adding machine tapes should also be retained.

"Payments for support are sometimes received by members of the Settlement Section personnel and also by the Assistant Director of the Division. The monies so collected are turned over to the Bureau of Accounts. Standard receipt books should be used by all employees when monies are collected on behalf of the Commonwealth."

As this matter has not been corrected, attention is again called to it.

Board of Private Patients at Tewksbury State Hospital: Referring to this, the previous two audit reports have stated:

"Referring to board of private patients, it is understood that the social service section of the department makes this determination and apparently the only records of such cases in that section are in the particular case history folders. It is suggested that the social service section keep a segregated record of private cases designated for payment of board, which will provide a basis for auditing this type of income."

Attention is again called to this suggestion as the arrangements have not been changed.

Ledger Accounts with Municipalities Account of Division of Aid and Relief: Previous audit reports have stated:

"It is again recommended that each ledger account with a municipality be backed up by a ledger account with each person included in the make-up of the account - at present there are ledger accounts with the municipalities but the detail is shown only on duplicate bills."

As this recommendation has not been adopted, attention is again called to it.

Division of Aid and Relief - Income Transferred to Institutions: In this connection the previous audit report stated:

"It is suggested that all income received by the Division for credit to the State Farm and to the Infirmary at Tewksbury be transferred directly to the State Treasurer, and a copy of the receipts voucher only be sent to the institutions concerned. At present, income of this kind is transferred directly to the institution and is later transferred by the institutions to the State Treasurer."

As this suggestion has not been followed, attention is again called to it.

Division of Aid and Relief Trustee Accounts: Previous audit reports have stated:

"These funds are received in the first instance in the office of the Assistant Director of the Division, are placed in an envelope and sent daily to the book-keeping office, where a receipt in duplicate is made out for each item and the funds deposited in individual savings bank accounts. The duplicate copy of the receipt is retained in the bookkeeping office and the original copy of the receipt is sent to the office of the Assistant Director of the Division who sends them to the social service section, where some have been filed in case history folders and some have been placed in an envelope.

"Apparently the receipt forms merely serve as inter-office memos and it is suggested that this matter be brought to the attention of the State Comptroller to the end that the receipt forms may be used for the purpose intended."

It was noted that a memorandum was received from the Comptroller's Bureau in connection with the review made by that department of the previous audit report, as follows:

"A review of the subject matter indicates that receipts are issued to any payee who desires one. The majority of payees do not desire receipts and since these cases are considered as being confidential, for the public interest it is recommended that the existing procedures be continued."

Unbilled Accounts as of December 31, 1951: It was noted that several accounts upon which settlement had been determined had not been billed for the quarter ended December 31, 1950. It was understood that all accounts would be billed in their entirety as of March 31, 1951.

Payments for Private Cases: The majority of payments for private cases are made by check to the Boston office of this Department. In view of the fact that the case history folders of the private cases are at the State Infirmary at Tewksbury and the amounts due on the private cases would be better known to the Institution personnel, it is suggested that instructions be issued by the Department that the payments in these cases be made directly to that institution.

Accounts Due from Municipalities - State Infirmary Cases: It was suggested in the previous audit report that all accounts over one year old be referred to the Attorney General for collection or disposition. The Comptroller, in a letter replying to the comments in that report, waived the one year rule and ruled that accounts unpaid within two years after adjudication should be sent to the Attorney General for collection. The experience in collecting overdue accounts from certain municipalities has indicated that the one year waiting period would be more practical for this purpose.

Accounts with the Attorney General for Collection: On January 25, 1951, the outstanding accounts of the two divisions totaled \$208,195.30. Of this amount, accounts of the Division of Aid and Relief totaling \$17,228.92 were recorded as being with the Attorney General for collection. No Division of Child Guardianship accounts were recorded as being with the Attorney General for this purpose. Upon checking with the records in the office of the Attorney General, it was noted that accounts totaling \$1,528.50 had apparently never been received by that department. It is suggested that steps be taken to reconcile the records of both departments in this respect.

Trustee Accounts: A total of \$11,881.88 was being held in 88 savings bank accounts as of January 25, 1951. Many of the accounts have been inactive for years. It is suggested that all accounts for which owners cannot be located, be turned over to the State Treasurer for deposit in a Fund Account.

State Employees' Unemployment Fund: This fund had a balance of only \$8.48 on March 2, 1951. Several years ago the balance in this fund was turned over to the Division of Aid and Relief for welfare use. The balance of \$6.98 as of January 25, 1951, has since been turned over to the Social Service Fund, conducted under the supervision of an employee of the division.

control account as of the date of audit consisted of charges taken from subsidiary ledgers which are supposedly kept for convenience. These were analyzed as follows:

Year	Current Active Ledger	Miscel- laneous Ledger	Old Active Ledger	Active Ledger	Suspense Ledger	Total
1951	\$ 1,127 49	\$64 36	-	-	-	\$-1,191 85
1950	2,880 32	-	-	-	-	2,880 32
1949	2,235 00	-	-	-	-	2,235 00
1948	2,653 07	-	-	-	-	2,653 07
1947	3,760 13	-	-	-	-	3,760 13
1946	1,813 03	-	-	-	-	1,813 03
1945	78 00	-	\$ 261 44	(\$15 00)	-	324 44
1944	-	-	4,412 84	-	-	4,412 84
1943	16 21	-	3,338 89	-	-	3,355 10
1942	-	-	5,990 65	-	-	5,990 65
1941	-	-	3,862 38	-	\$ 12 86	3,875 24
1940	-	-	407 15	-	2,810 88	3,218 03
1939	09	22 44	-	-	1,826 54	1,849 07
1938	15 86	-	-	-	2,039 86	2,055 72
1937	-	-	7 00	-	1,668 04	1,675 04
1936	-	-	-	-	1,101 17	1,101 17
1935	-	-	-	-	1,228 83	1,228 83
1934	-	-	-	-	477 20	477 20
1933	-	-	-	-	57 16	57 16
1932	-	-	-	-	14 00	14 00
	<u>\$14,579 20</u>	<u>\$86 80</u>	<u>\$18,280 35</u>	<u>(\$15 00)</u>	<u>\$11,236 54</u>	<u>\$44,167 89</u>

In the so-called "old active ledger" 687 accounts with a balance of \$20,686.20 were charged off during the current audit period, including all letters from A to L leaving a balance of 629 accounts from M to Z totaling \$18,280.35, in this category.

In the so-called "active ledger" 214 accounts with balances of \$7,774.59 were charged off during the audit period, leaving an aggregate credit balance of \$15.00 for two unknown patients' accounts in this category, while one account for \$128.00 was transferred to the "current active" category.

In the so-called "suspense ledger" three accounts were paid during the audit period still leaving a total of \$11,236.54 representing 653 accounts. Included in this trial balance of Accounts Receivable are eight unknown patients' accounts representing monies received in the years 1945, 1946, 1947, and 1948. It is suggested that these accounts be disposed of

It is recommended that the present system of handling Accounts Receivable accounts in the various subsidiary ledgers, now called "current active", "active", "old active", "suspense", and "miscellaneous", be discontinued and in their stead one ledger be substituted. In the event that this ledger becomes too bulky it could be alphabetically arranged in two or more folios. It is further suggested that the Department of Mental Health make periodic examinations of the Accounts Receivable records kept at this institution, so that the old unpaid accounts allowed to remain open will be reduced to a minimum.

Storeroom Inventory: A test inventory of 62 items in the storeroom was taken on February 1, 1951 and a comparison of these balances with the stock ledger balances was made. In this connection it was noted that the stores accounts are in a most unsatisfactory condition. Approximately 70% of the items inventoried did not agree with the stock ledger balances. It was further noted that no inventory adjustments have been made since June 30, 1949.

Materials and supplies are now kept in five different rooms and there does not appear to be sufficient space to properly arrange and handle the stock. It is understood that plans are now being made for better storage facilities.

Escrow Retirement Fund: The trial balance of the Escrow Retirement Fund consists of 48 accounts, 12 of which are for former employees who left the State service in 1948, and 3 who left in 1949. Apparently they all failed to sign the "Withdrawal Notice Form A" which is required by the State Retirement Board.

It is recommended that all accounts in this category over 3 months be sent to the State Treasurer and Receiver General as "unclaimed wages". It is also suggested that any

checks outstanding for more than 3 months in this fund be also sent to the State Treasurer to be credited to the "unpaid check fund."

Capital Fund: At the regular meeting of the Board of Trustees held May 10, 1950, it was voted to accept a gift of \$200.00 from an anonymous donor which was presented through Dr. Solomon for the purpose of -

"Establishing a Capital Fund for the Boston Psychopathic Hospital with the hope that contributions would be forthcoming to make it a useful project for the hospital.

"This fund is to be under the control of the Superintendent, who will establish all expenditures from the fund. The Treasurer shall keep a separate cash book for this fund."

There were no expenditures from this fund during the audit period.

WRENTHAM STATE SCHOOL

REPORT No. 51-68

Patients' Bankbooks: The previous audit report stated in this connection:

"It was noted that there were eight patients' bankbooks in which incorrect postings had been made by the bank. These books were sent to the bank by the institution treasurer and the errors were corrected."

A similar situation was noted in regard to certain bank accounts on the date of the current examination and the accounts were corrected when called to the institution Treasurer's attention.

Room Rentals: At the present time the annual deductions for room and house rentals through the pay roll total approximately \$28,000.00. New employees sign an authorization for pay roll deductions for room rentals, which remains in effect until rescinded. If an employee desires to change his accommodations a note is written to the chief hospital supervisor graduate nurse, who notifies the institution switchboard operator, who issues new room keys and advises the institution Treasurer's office with a so-called "key slip". Dates are thereupon checked in the Treasurer's office records and the room rental rates are accordingly changed on the pay roll.

It is suggested that a room register be set up with a head housekeeper in charge. This register would show the name of each employee with the dates they occupied specific quarters. A card file of all available rooms with spaces provided for an employee's name and for "in and out" dates should also be part of the record. The incorporation of this detail will greatly facilitate future examinations.

Meal Tickets: A substantial decrease was noted in sale of meal tickets during the past few years. This decrease began to develop when the State standard menu became effective. An employee now no longer makes a selection of his main course.

Canteen: When the monthly physical inventory of the Canteen varies from the book inventory, no adjustments are made in the canteen cash book. It is suggested that such changes be made regularly after inventories are taken.

Farm: The 1950 farm report showed a substantial death rate of pigs due to stillbirths and diseases. In the 1950 farm year the total number of pigs farrowed was 248 and of these 16.1% were stillborn and 26.2% died making a loss of 42.3%. There were also a large loss of pigs through deaths and stillbirths in the 1949 farm year. In regard to milk production a slight decrease was noted due primarily to mastitis and protein content in the feed.

TEACHERS RETIREMENT BOARD

REPORT No. 51-69

Records - Microfilm: It was noted that the bookkeeping records relating to the teachers' deposits were micro-filmed again as of December 31, 1950.

Bookkeeping -General: It was noted that there was no general ledger maintained by the board as prescribed by the Comptroller's Bureau Accounting Manual.

STATE AIRPORT MANAGEMENT BOARD

REPORT No. 51-70

Logan Airport, State Airport Management Board: Chapter 637 of the Acts of 1948 created the State Airport Management Board with general supervisory powers over all State-owned airports, including the adoption and carrying out of sound business management policies in the management and operation of such airports. Under this Act, charges and rentals for the use and occupancy of airport areas and facilities are subject to the approval of the board. Also, all contracts and obligations of the Massachusetts Aeronautics Commission pertaining to the acquisition, construction, maintenance, and operation of Hanscom Field, and all contracts and obligations of the Department of Public Works pertaining to the maintenance and operation of Logan Airport are now to be performed by the Commissioner of Airport Management.

Section 3 of Chapter 637 of the Acts of 1948 states:

"... Subject to the provisions of this section, the commissioner shall establish for each state-owned airport a schedule of fees for use of landing areas by aircraft for each take-off, based on the weight and other field and flight operations requirements for each individual aircraft of class of aircraft, and schedules of aircraft parking or tie-down fees, and other charges including those for the sale or distribution of gasoline or other aviation fuels, oil, and other articles and supplies on lands acquired or held for state airport purposes, and may establish schedules of other fees, charges, and rentals for the use and occupancy of airport areas or facilities, as he may deem necessary."

It was noted in connection with this examination that all leases negotiated with the large airline companies contained the following section in their leases:

Article 2 (1) 2nd paragraph:

"For each aircraft take-off the fee shall be four dollars (\$4.00) and in addition there shall be a further fee of nine and three quarters cents (9 3/4¢) for each thousand (1000) pounds of Civil Aeronautics Administration gross certificated landing weight in excess of twenty-five thousand (25,000) pounds.

"In computing such payments, amounts of five hundred (500) pounds or less, shall be disregarded, and amounts from five hundred and one (501) pounds to one thousand (1000) pounds shall be deemed to be one thousand (1000) pounds."

Article 3 (13) states:

"The right to service by Lessee, its supplies or others on leased premises and upon the apron of the New Apron Building, Lessee's aircraft and other equipment, by truck or otherwise, subject to regulations of Lessor concerning only the orderly operation of the Airport, with gasoline, oil, grease, and any other fuel, food or other supplies to be used by Lessee; such right shall include without limiting the generality hereof, the right to erect or install and maintain on said Airport on leased premises adequate storage facilities for such gasoline, oil, grease, and other fuel or supplies, at convenient locations, such storage locations to be subject to approval of Lessor, such approval not to be unreasonably withheld, in accordance with insurance underwriter's standards, together with the necessary pipes, pumps, motors, filters and other appurtenances to be and remain the severable property of Lessee."

The following regulation applies to aircraft operated by those other than airlines with the following provisions in their leases:

REGULATIONS ESTABLISHING CHARGES FOR THE SALE AND DISTRIBUTION OF GASOLINE AND OTHER AVIATION FUELS AT THE GENERAL EDWARD LAWRENCE LOGAN AIRPORT BY THE COMMISSIONER OF AIRPORT MANAGEMENT AND THE STATE AIRPORT MANAGEMENT BOARD, PURSUANT TO THE PROVISIONS OF CHAPTER 637, OF THE ACTS OF 1948

1. For each aircraft using the portion of the ramp and apron area designated by the Commissioner for the sale, distribution and other handling of gasoline, oil and other aviation fuels, the following charges are hereby established.

- (a) Five cents (5¢) per thousand (1000) pounds maximum take-off weight, or major fraction thereof. Such charge will cover such use of said ramp and apron area for one (1) hour.
 - (b) For each additional thirty (30) minutes, or major fraction thereof, during which said aircraft occupies said ramp and apron area for the purpose of fueling, two dollars and fifty cents (\$2.50).
2. The charges herein established shall not apply to any aircraft, the owner of which has otherwise provided for the payment of charges for the use of said ramp and apron area for fueling purposes, through separate agreement with the State Airport Management Board.
 3. These regulations shall become effective at 12:01 A.M., April 1, 1950 and shall continue in effect until amended, rescinded or superseded.
 4. Any prior rules and regulations and schedule of charges inconsistent with these regulations are hereby rescinded.

It was further noted that all leases with the major airlines have been approved by the office of the Attorney General.

Logan Airport, Accounts Receivable: It was noted that the subsidiary accounts receivable and the corresponding control accounts receivable were in a somewhat confused state. This was due mainly to different posting dates for the same items. It is suggested that posting to the control accounts be made on the last day of each month and should represent the totals charged to the subsidiary accounts during the month.

Logan Airport, Statements from Tenants on a Percentage of Sales Basis: It was noted that fifteen companies at present had leases with a "percentage of sales" clause. It is recommended that the financial statements prepared by the various lessees for submittal to the Airport should be signed by an accountant or a financial officer of the company so as to fix responsibility.

Logan Airport, Suspense Accounts Receivable: It was noted that there were two accounts listed in the active accounts receivable that have been outstanding longer than one year. It is recommended that these accounts be transferred to a suspense accounts receivable account as is prescribed in the Comptroller's Bureau Accounting Manual.

Logan Airport, Noncompliance with Lease: It was noted that a statement which was due before February 1, 1951 indicating the amount of gasoline sold for the calendar year 1950 by a concessionaire had not been submitted to the Airport. It was further noted that on the date of audit this concessionaire owed \$8,401.71 of which \$1,075.01 represented 1949 billings. This amount did not include the amount due to the Airport for gasoline sold for which one cent per gallon is also due. Since a certified statement has not as yet been received the actual amount due for gasoline sold cannot be determined.

No physical check was made in connection with the audit of gasoline sold by this lessee because the requested statement had not been received. It is recommended that this concessionaire be contacted with the purpose of settling this matter as soon as possible.

Logan Airport - Inter-City Aviation, Incorporated: In connection with the verification of the statement submitted by the Inter-City Aviation, Incorporated, attention is called to the following:

1. The exact meaning of the term "commercial airline" as stated in the lease should be clearly defined. This would minimize the possibility of misinterpreting the intent of the parties to the agreement.
2. The lease should include provisions as to the maintaining of records by the lessee in connection with the recording of sales. It is suggested that a provision in the lease state that records be kept in accordance with generally accepted accounting procedures.

Logan Airport, Ground Transportation: The matter of charging taxicabs for the privilege of entering the Airport has been under discussion by the State Airport Management Board since the inception of the Board. However, at the date of audit this subject was still being studied, and no directive for these charges had yet been issued.

Logan Airport, General: It was noted that the receipts for the fiscal year 1950 were

\$445,838.61 while the expenditures for the same period were \$582,243.76. This indicates that the Airport's expenditures exceeded its receipts by \$136,405.15. It is noted, however that the following expenditures were paid out of the Commonwealth's General Fund on behalf of this Airport:

Bond Interest Paid in Fiscal Year 1950	\$ 394,325 75
Bonds Redeemed in Fiscal Year 1950	<u>2,000,000 00</u>
	<u>\$2,394,325 75</u>

Not including the amounts expended for bond redemptions which are now represented by buildings, runways, and other capital improvements there is actually indicated a deficit for the fiscal year 1950 of \$530,730.90, as follows:

Deficit for Fiscal 1950 (Excess of Expenditures over Receipts)	\$136,405 15
Bond Interest Paid in Fiscal 1950	<u>394,325 75</u>
	<u>\$530,730 90</u>

It was also noted that in the leases for space that the expenses for the various custodial services are now charged to the tenants. This practice has resulted in a substantial reduction in expenses.

Hanscom Field, Materials and Supplies: The storeroom at this Airport contains many items used for maintenance purposes. At the present time there is no stock ledger maintained at this field to control these items. It was noted that a survey of the materials and supplies situation has been in process since the preceeding audit and it is understood that stock ledger control will be instituted in the near future.

PONDVILLE STATE HOSPITAL

REPORT NO. 51-71

Maintenance Charges: A great deal of difficulty was encountered in auditing this type of income at this institution because of the lack of sufficient original information. The applications for pay roll deductions, which are signed by the employees, were listed and were test checked to one month's pay roll. In this connection it is recommended that a card file of all rooms or houses available for rent be installed, each card to include the following information:

Building or room number
Rental price
Name of occupant
Dates of occupancy

With this information available, an audit of this income will be facilitated.

Patients' Fund: The funds of the patients at this institution are handled in the same manner as that of patients in certain general hospitals. Because of this, it is possible only to verify the amount showing on the face of the envelope. In order to account for all the money belonging to patients who have been in the hospital during the period covered by this audit, it would be necessary to go through the files of each patient who was treated during the audit period and list the record showing on the face of each envelope.

Key Deposit Fund: No cash book is kept of this account. Only a card file of keys out is kept, and when the keys are returned the refund is entered on the individual card.

A letter from the department to the Blue Cross dated January 18, 1951 again changed the outpatient rate to \$3.00 per treatment, effective March 1, 1951, with the exception that patients receiving over eight treatments would not pay more than \$25.00.

It was also noted that the rates of inpatients were raised in conformance with the following memorandum:

COPY
MEMORANDUM

To: Dr. Parker
From: Dr. Pope

February 21, 1951

Subj: Council Action

At the meeting of the Department on February 14, 1951, it was VOTED that no increase be made in the rates charged for the care of tuberculosis patients at State Sanatoria but that under authority of General Laws, Chapter 111, Section 66, the charges for the care of inpatients at the Pondville Hospital and the Cancer Section of the Westfield State Sanatorium be increased as follows: If paid by patient from \$21.00 to \$35.00 per week; if paid by city or town of settlement, from \$40.00 to \$52.00 per week, effective April 1, 1951.

BELCHERTOWN STATE SCHOOL

REPORT No. 51-72

Materials and Supplies: Adjustments made during the audit period were examined and tabulated. Overage adjustments aggregated \$880.72 and shortage adjustments aggregated \$2,121.60. Included in the shortage adjustments was an adjustment of fuel totaling \$1,533.27. The other adjustments were caused by clerical errors, spoilage and shrinkage, etc.

Salvage Sales: Revenue from salvage sales for the period of audit was as follows according to the records:

Bones and Grease	\$ 157 07
Calves, Bulls, Etc.	3,406 42
Hides	376 03
Rags and Bags	1,225 77
Miscellaneous Scrap	136 25
	<u>\$5,301 54</u>

Funds of Paroled Patients: The earnings and savings of patients on parole are not recorded on the financial records of this institution.

Paroled patients are permitted to keep their bankbooks in their possession and make deposits in their savings accounts. The bank accounts in most cases are in the name of the Belchertown State School, subject to withdrawal by the superintendent or the assistant superintendent. On June 30, 1950, the Social Service Department tabulated the balances in the savings accounts of the paroled patients and confirmed the balances by correspondence with the various depositories. This tabulation of 126 bank accounts showed balances aggregating \$45,089.01.

Attention is again called to the following recommendations covering the recording of earnings of paroled patients, which have appeared in the previous audit reports:

1. Control accounts be established on the financial records of the institution.
2. Subsidiary records for each paroled patient showing earnings, payments to and/or expenditures made for the patient and the amount of savings of each patient be established.

Control of House and Room Rents: The records of this institution pertaining to houses and rooms available for rentals are inadequate for audit purposes. It is recommended that a representative of the Comptroller install a system for the proper control of the items of this nature.

Funds of Deceased Patients: Recorded in the Patients' Funds is an amount of \$478.45 to the credit of patient #3215. This patient died at the institution on June 21, 1948. In accordance with Section 3 of Chapter 123 and Section 30 of Chapter 117 of the Tercentenary Edition of the General Laws, as amended by Section 2 of Chapter 581 of the Acts of 1948, it is recommended that this money be sent to the Department of Mental Health to be applied against payment of board of this patient.

DEPARTMENT OF CIVIL SERVICE AND REGISTRATION

GENERAL DEPARTMENT

REPORT No. 51-73

Division of Civil Service

Professional and Consulting Services: It was noted that the sum of \$29,565.05 was expended during the fiscal year 1950 for professional and consulting services. These records were not examined because of the objection of the Director to submitting them for examination. His objection centered on the confidential nature of the services performed.

Division of Registration

Cash Book: It was noted that the procedure in recording income was changed in June 1950. Prior to this date cash receipts of the various boards were recorded in the Division cash book as well as in the cash books of the various boards of registration. These cash receipts are now transferred directly to the State Treasurer by the respective boards.

The current procedure is authorized by a letter of the Comptroller dated May 26, 1950.

Division Income: In reconciling the Divisional control account with the records of the Comptroller's Bureau it was noted that three deposits totaling \$2,031.60 and two bad checks totaling \$7.20 had not been reported to the Division of Registration by the several boards.

It is recommended that the various boards submit a monthly analysis of their income transactions to the Division office. It is believed that this procedure will eliminate the possibility of unreported items.

Excess of Expenditures over Receipts: It was noted that the Boards of Barbers and Hairdressers showed an excess of expenditures over receipts for the 1950 year.

The Acts of 1935, Chapter 428 (Hairdressers) and Section 41 of Chapter 13 of the Tercentenary Edition of the General Laws (Barbers) states in part:

" shall not be in excess of the receipts for registration and from other sources received by the State Treasurer from the board. "

WESTBOROUGH STATE HOSPITAL

REPORT No. 51-74

Farm Records: The previous audit report stated as follows:

"The farm report for the 1949 farm year was prepared by the institution and sent to the Department of Mental Health for approval. It is understood that this report has been misplaced, or lost, therefore, was not available for auditing purposes during this current examination of the institution's accounts. "

Apparently the missing report was never located. A pencil copy was, however, prepared from the supporting farm records in the farm office and was now available for checking.

In connection with checking this report to the financial records of the institution certain variances were noted; therefore it is recommended that subsequent farm reports when prepared, be reconciled with the institution's financial records in the Treasurer's office.

The 1950 farm report had not yet been prepared on date of audit.

Maintenance Charges: These charges consisting of rooms and meals for employees were checked insofar as possible. Through the use of ticket inventories and sales figures for the audit period it was possible to account for all the tickets used during this period. In this connection a marked decrease was noted in the revenue during the 1949 calendar year, compared with the 1950 calendar year. Charges for maintenance for the former period totaled \$91,889.82, as compared with \$54,108.90 for the latter. The monthly analysis making up these totals indicated that this income began to gradually decline in the month of October 1949, the month in which the system of using meal tickets was inaugurated. The charges for meals for the month totaled \$3,300.20 and had decreased to \$1,340.00 in December 1950. This decline was attributed to the fact that under the present system an employee is not charged on a seven day a week basis for meals and therefore pays only for the individual meals which he eats on a basis of a five day week. He is also not charged for

meals when he is on sick leave or vacation. The following schedule shows the number of employees eating meals, as compared with the number of employees actually on duty each day for the week ending February 24, 1951:

<u>Date</u>	<u>Day of Week</u>	<u>Breakfast</u>	<u>Dinner</u>	<u>Supper</u>	<u>On Duty</u>
Feb. 18, 1951	Sunday	65	59	55	224
Feb. 19, 1951	Monday	56	119	63	353
Feb. 20, 1951	Tuesday	65	141	61	343
Feb. 21, 1951	Wednesday	71	131	71	339
Feb. 22, 1951	Thursday (Holiday)	53	104	70	248
Feb. 23, 1951	Friday	71	117	64	338
Feb. 24, 1951	Saturday	60	126	59	214

An effort was made to check the income accruing from the rental of rooms but no satisfactory means of checking this income was indicated.

This matter of room renting was discussed with the institution steward. While the current audit was in progress a register of rooms was set up from floor plans for each room available for rental. These registers will be maintained by institution employees and will be henceforth available for use in connection with subsequent audits.

Pay Roll Bank Account: In reconciling this account it was noted that there were eleven checks totaling \$355.22 which had been outstanding for three months or more. It is recommended that these checks be canceled and paid into the "Unclaimed Wage Fund" as prescribed by the Comptroller's Bureau Accounting Manual.

Funds of Deceased Patients: It was noted that there were 22 accounts totaling \$88.60 which had not been forwarded to the Department of Mental Health. These accounts were brought to the attention of the institution treasurer and were forwarded to the Department of Mental Health while this audit was in progress.

Funds of Discharged and Escaped Patients: It was noted that there were 26 accounts in this category, totaling \$79.33, which were seven years old, or more and had not been forwarded to the Department of Mental Health.

During the course of the current audit, \$77.33 of this amount was forwarded to the Department of Mental Health. The balance of this amount was brought to the attention of the institution treasurer and it is understood that the matter will be taken care of in the near future.

Patients' Fund - Bank Account: In reconciling this account it was noted that there were seven checks totaling \$35.28, which had been outstanding for one year or more. It is recommended that these checks be canceled and added to the "Patients' Fund" balance.

Patients' Fund - Cash in Banks: On the date of audit the cash in banks totaled \$26,030.07 of which \$17,030.07 was on deposit in one commercial account and \$9,000.00 in two savings accounts. The cash in banks on the date of the previous examination totaled \$19,408.89. It is suggested that the institution transfer such portion of the funds in the commercial account not immediately needed to the savings accounts in order that interest may be earned.

Escrow Retirement Fund - Bank Account: In reconciling this account it was noted that there were six checks totaling \$14.16 which had been outstanding for one year or more. It is recommended that these checks be canceled and paid into the "Unpaid Check Fund" as prescribed by the Comptroller's Bureau Accounting Manual.

BOARD OF BAR EXAMINERS

REPORT No. 51-79

Excessive Accounts Payable Reported for 1950 Fiscal Period: The expenses of this Board excluding personal services, was indicated on the records as \$7,401.14 for the fiscal year ended June 30, 1950.

A review of the expenses charged to the various appropriation accounts for the 1950 fiscal year indicated however, that these expenses were overstated in the amount of \$449.39 because of excessive accounts payable having been reported as of June 30, 1950. These items included the following:

Account No.	Account Name	Accounts Payable	Invoices Paid	Unexpended (Excess)
0312-02-03	Salaries - Non-Employees	\$ 716 00	\$ 595 00	\$121 00
0312-02-08	Heat and Light	20 00	2 70	17 30
0312-02-11	Advertising and Printing	880 21	639 75	240 46
0312-02-14	Office and Administrative	100 00	29 37	70 63
0312-02-15	Equipment	90 15	90 15	-
0312-02-16	Rent	65 00	65 00	-
	Totals	<u>\$1,871 36</u>	<u>\$1,421 97</u>	<u>\$449 39</u>

It is suggested that closer scrutiny be given unpaid expenses before recording the Accounts Payable at the close of the fiscal period.

Bookkeeping Records: At present the Comptroller's daily statements are kept in a folder. Since these statements constitute official bookkeeping records it is suggested that they be kept in a permanent binder in chronological order.

DEPARTMENT OF PUBLIC UTILITIES

REPORT No. 51-80

Financial Statements: It was noted that the monthly financial statements which are sent to the Comptroller's Bureau do not always reflect the cash balance as per the general ledger control account for cash. This was due to the improper handling of the cash advance in the financial statements.

It is recommended that the Comptroller's Bureau instruct the department in the proper procedure in this respect.

Cash Book: It was noted that the monthly cash book balances were not in agreement with the general ledger control account in several of the months under audit.

The cash book balance at the end of each month should include the balance of all money advanced by the State Treasurer that has not been expended. It is recommended that the cash book balance be reconciled monthly with the general ledger control account cash.

BRADFORD DUFEE TECHNICAL INSTITUTE

REPORT No. 51-81

Tuition: The tuition at this institute has been established by the Board of Trustees as follows:

Residents of Massachusetts	\$100 00 a year
Non-Residents of Massachusetts	250 00 a year
Foreign Countries	500 00 a year

Trust Funds: Section 43 of Chapter 74 of the Tercentenary Edition of the General Laws, as amended by Chapter 257 of the Acts of 1946, reads:

"The board of trustees of each of said institutes shall be a corporation for the purpose of taking by gift, bequest, or devise any real or personal property."

As has been stated in previous audit reports, the Board of Trustees voted on November 4, 1932 to transfer the management of all funds entrusted to its care to the B. M. C. Dufree Trust Company.

The agreement in effect allows the trust company to retain the custody of the securities, collect and distribute the income subject, however, to the direction and vote of the trustees. A nominal charge is made by the trust company for these services.

It is suggested that the several notes held in the Students' Aid Fund, totaling \$151.41, which appear to be uncollectible and have been outstanding for approximately 20 years, be charged off the books.

Puerto Rico Industrial Development Fund: This fund was established by the Puerto Rico Development Company to aid students from Puerto Rico attending this institute. The president of this institute is the trustee of the fund.

American Association of Textile Chemists and Colorists Fund: The Rhode Island Section of this Association donated \$1,000.00 to this institute to establish a fund to be known

as the AATCC. The income from this fund will be used to award an annual prize to the student submitting the best paper on any subject related to textile chemistry.

CIVIL DEFENSE AGENCY

REPORT No. 51-82

Civilian Defense Trust Fund Account #6808: This account was set up on the Comptroller's Bureau records in February 1951 to record the receipt of \$100.00 each from two banks as donations towards the printing costs of a booklet entitled "Protection From The Atomic Bomb." When the invoice is received by the agency for the printing and shipping costs of this booklet, the funds in the trust account will be used to partially pay the printing costs.

Authority for the acceptance of donations by the Defense Agency is given under Section 15, Chapter 639 of the Acts of 1950.

Deficiency Appropriation: As of March 5, 1951, a Special Appropriation was approved (Chapter 114, Acts of 1951) giving this agency the sum of \$180,500.00 to augment the 1951 appropriation and to provide for additional projects, as follows:

Personal Services - Regional Centers - 1951	\$ 34,000 00
Maintenance Expenses - Regional Centers - 1951	10,000 00
Rental of New Quarters - 4 months - 1951	6,850 00
Expenses of Moving to New Quarters - 1951	1,650 00
Addition to Building - Forest Hills (plans)	12,000 00
State Police Radio Equipment	76,000 00
Training Technicians, Balance for Blood Typing	15,000 00
Unexpected Contingencies	25,000 00
	<u>\$180,500 00</u>
Total	

MEDFIELD STATE HOSPITAL

REPORT No. 51-83

Accounts Receivable-Ledger: Certain items do not appear in the accounts receivable ledger although they are passed through the control account in the general ledger. These are as follows:

Board of Patients	\$104,042 63
Maintenance Charges	24,066 52
Student Nurses Rents	826 95
Interest on Patients' Funds	286 70
Trustees' Meals	21 00
	<u>\$129,243 80</u>

It is suggested that every item in the control account should be reflected in detail in the accounts receivable ledger.

Maintenance Charges: The difficulty encountered in other institutions in auditing the maintenance charges was found at this institution. There were insufficient records available to make a satisfactory audit. It is recommended that the Comptroller install an adequate system so that this income may be properly audited.

Canteen Accounts: There are 6 checks totaling \$36.35 which have been outstanding for a long period of time. Payment on these checks should be stopped and the balance added to the fund.

Escrow Retirement Fund: The prescribed card form for use in this fund is not being used. Information relative to dates is incomplete. The final disposition of the funds deducted does not appear on the cards. In order to audit this fund, it was necessary to refer to a memo book for certain pertinent information.

1950 Farm Report: It was noted that 50 shoats were sent from Grafton State Hospital by the farm co-ordinator. After arrival it was found that many were sick resulting in 37 deaths.

Milk production totaled 6,695 quarts per cow per year, produced at a cost of 11¢ per quart. Egg production totaled 227.5 eggs per hen per year at a cost of \$.438 per dozen.

During the year 202,906 quarts of milk were sold to Boston State Hospital, at \$.1075 per quart, or \$608.66 less than the recorded production cost.

Special Appropriations: It is recommended that the memo accounts of special appropriations carried in the back of the general ledger be currently entered.

DEPARTMENT OF CORRECTION

GENERAL DEPARTMENT

REPORT No. 51-84

General: A shortage of \$1.48 was noted in the balancing of cash. The cash account on June 30, 1950 indicated that there was no cash balance. An error in addition of \$1.00 on the disbursements side of the cash book in June 1950 resulted in a shortage of \$1.00. An error of \$.50 was noted in the check book in September 1950, which was used for the purpose of reconciling the bank statement. It was also noted that the cash book was very carelessly handled. Incorrect column headings and pencil footings appeared in the cash book. The proof of cash was not recorded at the end of each month in the cash book. An amount of \$3.50 which was received and deposited with the State Treasurer in January 1951 was not recorded in the cash book. The disbursements for the months of September, November and December were footed incorrectly.

It is recommended that the Comptroller's Bureau instruct the senior bookkeeper in charge in the proper procedures.

Cash Account: All entries in the cash account are made by journal entry. It is suggested that all cash book entries be posted directly from the cash book to their respective accounts in the general ledger.

Voided Checks: Voided checks are affixed to the stub of the check book. It is suggested that the signature be torn from all voided checks and that they be filed with the canceled checks each month.

Parole Board - Assistance to Discharged Prisoners: The records of the Parole Board indicate that during the period covered by the audit \$483.97 was given to discharged prisoners as loans or gratuities. During the same period \$26.00 was repaid on loans.

DEPARTMENT OF PUBLIC WORKS

GENERAL DEPARTMENT

REPORT No. 51-87

Financial Records in General: Two separate sets of financial records (including the cash) are kept, one for the Division of Highways and the other for the Waterways Division.

Highways Division

Inventories: An integral part of the installation by the Public Administration Service was a tabulating Inventory Control. Inventories are maintained in 44 storehouses located throughout the State and the system is so designed as to provide a control in the machine room for the materials and supplies in each of these 44 storehouses. Test inventories were taken at five of the storehouses and the results of the inventory takings are summarized as follows:

SUMMARY OF TEST INVENTORIES

	Storeroom No. 1 D Street	Storeroom No. 2 Traffic Shop	Storeroom No. 55 Beverly	Storeroom No. 56 Lynn	Storeroom No. 75 Middleboro
Value per Book Records	\$35,837 44	\$104,122 23	\$9,118 52	\$34,584 44	\$11,996 23
Value per Physical Inventory	\$35,953 00	\$101,261 52	\$10,061 38	\$21,154 62	\$12,082 64
Add - Shortages	1,627 93	8,448 29	245 32	14,855 04*	198 06
	\$37,580 93	\$109,709 81	\$10,306 70	\$36,009 66	\$12,280 70
Less - Overages	1,743 49	5,587 58	1,188 18	1,425 22	284 47

Value per Book Records	<u>\$35,837 44</u>	<u>\$104,122 23</u>	<u>\$9,118 52</u>	<u>\$34,584 44</u>	<u>\$11,996 23</u>
Total Book Value of all Items in Storeroom	<u>\$246,564 29</u>	<u>\$385,885 43</u>	<u>\$27,194 80</u>	<u>\$83,578 24</u>	<u>\$45,450 61</u>
Date of Inventory	5-31-51	5-28-51	5-23-51	5-22-51	5-24-51
Date Book Records Received	6-12-51	6-12-51	6-22-51	6-22-51	6-22-51
Total Number of Items in Storeroom	<u>4,169</u>	<u>1,213</u>	<u>607</u>	<u>161</u>	<u>663</u>
Number of Items Inventoried	<u>289</u>	<u>226</u>	<u>84</u>	<u>42</u>	<u>106</u>
Number of Items Short	<u>85</u>	<u>68</u>	<u>22</u>	<u>26</u>	<u>13</u>
Number of Items Over	<u>61</u>	<u>87</u>	<u>17</u>	<u>14</u>	<u>16</u>

* Includes 5,000 Gallons of Paint, Traffic White Prism, Value \$7,200.00 which apparently was a bookkeeping error.

In considering the results of these inventories, it should be noted that it was understood that no adjustments had been made since June 30, 1950. It should also be noted that the storage facilities in many of the storehouses are inadequate.

In connection with inventory controls, the previous audit report stated:

"Previous audit reports have commented on the fact that no control account is carried in the general ledger for materials and supplies. It is suggested in view of the fact that the book records in the machinery room are so designed as to provide a separate control for the materials and supplies in each of the 42 storehouses, that as of July 1, 1950, separate control accounts be set up in the general ledger for three or four of the storehouses and gradually increase the number of control accounts until all 42 have been provided."

It was noted that to date of audit the controls have not been set up on the general ledger, therefore, attention is again called to this recommendation.

Accounts Receivable: The active accounts receivable balance on April 3, 1951 amounted to \$398,496.24. There is included in this amount the sum of \$225.24 which represents alternative charges in cases where reimbursement is sought for damages to highways, bridges and guard rails. When either party pays the amount billed, the alternative charge is canceled.

The suspense accounts receivable balance on April 3, 1951 was \$32,374.18. This amount represents the value of accounts turned over to the Attorney General's office for collection. Included in this amount is the sum of \$1,547.51 which represents alternative charges. These are also included in the suspense accounts receivable charge balances amounting to \$152.24 which should be canceled as they represent alternative charges still open upon the books, although the charges have been paid.

Contracts - Low Bids Rejected: An examination of the contracts awarded during the period under audit indicated that three contracts were awarded to the second lowest bidder and one contract to the third lowest bidder. The following represents the reasons given for these awards:

No.	Contract	Lowest Bid	Second Lowest Bid	Reasons for Rejection
4603	Testing Materials for Contracts Awarded in the 1951 Fiscal Year	\$11,560 00	\$12,397 50	The Second Bidder Holds Contract for Contracts Awarded in the 1950 Fiscal Year that may not be Completed until 1952.

Two Companies might result
in Confusion

4632	Bridge over the B & M Railroad, Salem	\$781,124 50	\$784,980 00	The Low Bidder had no Previous Experience in Road or Bridge Construction and did not have Proper Organization or Equipment
4712	Three-way State-wide Radio Communication System	66,528 45	69,888 00*	The Low Bidder did not Comply with Department Requirements. The Second Low Bidder did not meet the Department Specifications and Included an Escalator Clause. The Third Low Bidder Received the Award.
4715	Tree Trimming, Norfolk County	6,204 00	7,560 00	The Low Bidder would not submit References as to his Previous Experience on this Type of Work.

* Third Lowest Bidder

Bridge Painting and Gunitite Repair Work Awarded Without Contracts: An audit of the weekly pay roll vouchers charged to the Department "Force" account indicates that weekly pay roll checks amounting to \$161,063.88 for three projects not yet completed have been paid to a Painting Company and \$10,830.00 for one incompleted project to another painting company. Weekly pay roll checks totaling \$79,489.72 have also been made to three gunitite repair companies for the eleven-month period ended April 30, 1951. Inquiry as to why these payments were made and charged to the Labor Force account indicated that the Department has rented from the two Painting Companies concerned, equipment and seven-man crews at the rate of \$285.00 per day. It had also rented from the above three gunitite repair companies equipment and three-man crews at the rate of \$175.00 per day for work on bridges without first having secured competitive bids. It was understood that when the District Engineer determines that a bridge requires painting or gunitite repair work, a request is sent to the Bridge Maintenance Department for approval. Subsequent approval by the Executive Assistant for Traffic Maintenance and the Chief Engineer is required before the Board takes action on the request. Copies of the applicable Board votes are sent to all District Engineers and the approval of the projects for their respective Districts constitutes sufficient authorization for the District Engineer to issue a work order to the Company authorized by the vote of the Board to perform the work at the rate and for the period of time authorized in the Board votes.

In connection with the foregoing, it was noted that within the past 24 months at least four contracts were awarded for the painting of bridges to the lowest bidder of the bids of record, competitive bidding having been secured through invitations to bid inserted in the public press. It was also noted that at least two contracts were awarded for gunitite repair of bridges to the low bidder of the bids of record, competitive bidding having been secured through invitations to bid inserted in the public press.

First Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 306 of the Acts of 1949 approved and effective May 18, 1949, provided for a bond issue of \$100,000,000.00 and of this amount \$92,000,000.00 was available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The \$92,000,000.00 available for the Department of Public Works was allocated by said Chapter 306 as follows:

Section 5. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 6. \$53,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in the urban areas and for studies to determine the feasibility of revenue producing facilities. Not less than \$5,000,000.00 of the total sum is to be expended in each of the four

following districts:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County
- Area 3. Middlesex, Essex, and Norfolk County, including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Section 7. \$2,000,000.00 to be expended for traffic safety devices on state highways and on roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 12. This section provides that detailed progress reports shall be filed with the governor and with the clerk of the House of Representatives on December 31, 1949, June 30, 1950 and December 31, 1950, and a final report on or before July 31, 1951 relative to all projects undertaken under the provisions of this act.

Section 13. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1951.

It was noted that to the date of this audit \$60,000,000.00 of the bonds authorized under Chapter 306 of the Acts of 1949 had been issued.

The following is a summary of expenditures and encumbrances incurred under Chapter 306 to April 30, 1951.

Summary of Expenditures and Encumbrances
on 1949 Bond Issue

April 30, 1951

Expenditures to April 30, 1951	Encumbrances per Ledger April 30, 1951	Total Expenditures and Encumbrances April 30, 1951
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Outside Metropolitan Area

Area No. 1:			
Construction, etc.	\$ 2,014,225 42	\$ 3,064,077 30*	\$ 5,157,189 37
Engineering and other Expenses	78,886 65	-	-
Blanket Encumbrance for Area No. 1	-	93,430 55*	93,430 55
Area No. 2:			
Construction, etc.	5,765,760 00	2,526,323 75*	8,425,277 05
Engineering and other Expenses	133,193 30	-	-
Area No. 3:			
Construction, etc.	18,768,077 89	9,790,720 61*	29,262,118 94
Engineering and other Expenses	703,320 44	-	-
Area No. 4:			
Construction, etc.	5,686,989 41	1,650,661 79*	7,531,651 39
Engineering and other Expenses	194,000 19	-	-
Area No 1. through No. 4 Undistributed	190,368 96	40,741 62	231,110 58
Total Outside Metropolitan Area	\$33,534,822 26	\$17,165,955 62	\$50,700,777 88
<u>Metropolitan Area</u>	3,171,027 65	13,573,004 09	16,744,031 74
<u>Traffic Safety</u>	1,818,501 48	70,609 20	1,889,110 68
	<u>\$38,524,351 39</u>	<u>\$30,809,568 91</u>	<u>\$69,333,920 30</u>

* Encumbrances include both construction, etc., and engineering and other expense figures.

Second Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 685 of the Acts of 1950 approved and effective July 31, 1950 provided for a bond issue of \$100,000,000.00 and of this amount, \$92,000,000.00 was available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The \$92,000,000.00 available for the Department of Public Works was allocated by said Chapter 685 as follows:

Section 4. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 5. \$54,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) for traffic studies in urban areas. Not less than \$8,000,000.00 of the total sum is to be expended in each of the four following areas:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundry of Worcester County
- Area 3. Essex, Middlesex and Norfolk Counties, Including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Also from the total amount, the Department of Public Works may expend from the total amount of \$54,000,000.00 an amount not to exceed \$1,000,000.00 in areas outside Metropolitan Boston for resurfacing existing highways.

Section 6. \$1,000,000.00 to be expended for traffic safety devices on State highway and roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 11. This section provides that detailed progress reports shall be filed with the Governor and the clerk of the House of Representatives on December 31, 1950, June 30, 1951 and December 31, 1951, and a final report on or before July 31, 1952 relative to all projects undertaken under the provisions of this act.

Section 12. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1952.

The following is a summary of the expenditures and encumbrances incurred under Chapter 685 to April 30, 1951:

Summary of Expenditures and Encumbrances
1950 Bond Issue

	April 30, 1951		
	Expenditures to April 30, 1951	Encumbrances per Ledger April 30, 1951	Total Expenditures and Encumbrances April 30, 1951
<u>Outside Metropolitan Area</u>			
Area No. 1	\$ 5,048 07	\$1,121,039 08	\$ 1,126,087 15
Area No. 2	1,151,179 02	1,691,282 26	2,842,461 28
Area No. 3	1,682,459 31	4,055,171 57	5,737,630 88
Area No. 4	316,474 23	775,534 25	1,092,008 48
Undistributed Area			
No. 1 to No. 4	-	55,109 66	55,109 66
Department Engineering	543,100 86	64,218 34	607,319 20
Department Force Account	1,710 74	10,374 42	12,085 16
Total Outside			
Metropolitan Area	\$3,699,972 23	\$7,772,729 58	\$11,472,701 81
<u>Outside Metropolitan Area</u>			
Resurfacing	4,439 21	83,361 26	87,800 47
<u>Metropolitan Area</u>	228,331 22	1,937,590 17*	2,165,921 39

<u>Traffic Safety</u>	\$ 3,259 46	\$ 13,854 50	\$ 17,113 96
	<u>\$3,936,002 12</u>	<u>\$9,807,535 51</u>	<u>\$13,743,537 63</u>

* Includes Purchase Order for steel for \$1,254,500.00.

Sale of Land and Property: Previous audit reports included a comment that a parcel of land on Nashua Street, Boston, was sold on May 20, 1941 for \$100,000.00. The terms of the agreement called for a down payment of \$6,500.00, the balance to be paid in eleven equal payments of \$8,500.00 payable with interest at 4%. The down payment of \$6,500.00 was made but no further payments of principal or interest have been recorded. A supplemental agreement was reached by both parties on November 16, 1943, which was approved by the Council on December 27, 1944. This supplemental agreement states in part:

" . . . That the further payments on the purchase price of said premises as required by the terms of said agreement of May 20, 1941 shall be suspended for the duration of the unlimited National Emergency as declared by the President of the United States on May 27, 1941 . . . "

At the Commission meeting April 20, 1948, the matter of the agreement between the Department and the Purchaser for the sale of a certain parcel of land on the northerly side of Nashua Street, Boston, Massachusetts, dated May 20, 1941 was brought up, and it was voted to refer this matter to the Director of the Division of Waterways for a report.

The report was presented at a meeting of the Commission on November 23, 1948 and was as follows:

" . . . On May 20, 1941 the Department agreed to sell a part of the Nashua Street parking space to . . . for \$100,000.00; \$6,500.00 to be paid on delivery of the agreement and the balance in eleven equal annual installments starting with May 1, 1942, plus interest at 4 per cent. He states that on November 16, 1943 there was a supplementary agreement which provided that further payments beyond the \$6,500.00 down payment were suspended for the 'duration of the National Emergency as declared by the President of the United States on May 27, 1941', and the 1941 agreement was suspended until that date, but provided 'that if it appears to the Department that the necessary materials for the construction of the building are available said department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect.'

"Voted, That . . . be notified that the agreement of May 20, 1941, shall be in effect on January 2, 1949 under the above clause of the supplementary agreement of November 16, 1943, as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945."

The following is a copy of a letter to the purchaser from the Secretary of the Commission:

COPY

November 23, 1948

Dear Sir:

This is to inform you that the agreement of May 20, 1941 between you and this Department, on the matter of the purchase of a portion of the Nashua Street parking space, shall be in effect on January 2, 1949, under the clause of the supplementary agreement of November 16, 1943 - 'that if it appears to the Department that the necessary materials for the construction of the building are available said Department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect . . . ' as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945. In the opinion of this Department materials for the construction of the building are now available.

Very truly yours,

Reg. Mail

Secretary

It was noted that to April 3, 1951, no further payments had been made and that on January 29, 1951, the Department's file on this case was transmitted to the Attorney General.

It was also noted that effective as of May 1, 1950, the department issued a revocable permit to another individual to use this area under certain conditions as a parking lot evenings, Sundays and Holidays, for a fee of 10% of the gross receipts.

It was further noted that when this land was sold in 1941 it was the property of the Division of Waterways, but that now it is considered as relating to the Department of Public Works and not to the Division of Waterways.

Federal Aid: As a result of a special examination of the Federal Aid accounts covering the period of July 1, 1944 to June 30, 1950, a report was issued which contained the following recommendations.

Bookkeeping: It is recommended that:

- (1) All record keeping relating to Federal Aid be centralized in one place
- (2) One over-all control accounts receivable be set up in the general ledger, which at the end of each month will show the grand total of the receivables.
- (3) Sub-control accounts be set up - each control account to be supported by detail accounts, showing balances in the following stages:
 - a Unprogrammed Balances
 - b Programmed Balances
 - c Plans, Specifications and Estimates, Balances
 - d Agreement Balances
 - e Actual Accounts Receivable
 Postings to be made currently and trial balances taken at the end of each month

It was noted that these recommendations have been adopted with the exception of (2), consequently attention is again called to it.

As was stated earlier in this report the Federal Aid accounts were not audited, but an examination of the Federal Aid projects in the actual accounts receivable stage as of March 31, 1951, indicated that the Department still carried on its books balances amounting to \$35,107.62 which are non-collectible and have been transferred by the Federal Bureau of Public Roads on their records to Unprogrammed Funds available to the Department for new Federal Aid projects. These projects are as follows:

Project	Balance	Date
F-147 (4) Pittsfield	\$ 3 87	February 1950
F-169 (2) Amesbury	13,968 46	December 1949
F-211 (16) Wellesley	18 54	April 1949
F-235 (10) Newton	85 13	April 1949
F-I-241 (4) Boston (East)	28 01	June 1949
F-242 (5) Arlington-Belmont	279 55	July 1950
S-49 (1) Chicopee	5,698 95	March 1950
S-77 (1) Webster	401 25	March 1949
S. N. F. A. P. -23 (3) Great Barrington	6,259 58	September 1949
S. N. F. A. P. -28 (3) Lanesboro	5,177 49	September 1949
S. N. F. A. P. -39 (5) Lanesboro	416 65	September 1949
S. N. F. A. P. - 272 (16) Lynnfield	249 32	June 1950
F. A. G. S. -15 (1) Montague	2,520 82	September 1949
Total	<u>\$35,107 62</u>	

It was also noted that on March 31, 1951 the department carried as Accounts Receivable a balance of \$16,024.50 on Project F-114 (3) Lenox, which is a duplicate billing dated January 27, 1950. The original billing dated December 30, 1949 was paid by the Federal Bureau of Public Roads on January 13, 1950.

It is recommended that all of the above balances amounting to \$51,132.12 be removed from the Accounts Receivable account.

Employees' Bond Fund: It was determined that sixteen employees have two bond savings accounts. Even though each account does not have a balance sufficient to warrant the purchase of a bond, in some instances the combination of two accounts does. These

accounts should be consolidated.

The Employees' Bond Fund contains deposits accumulated to credit of certain individuals who have retired or are otherwise now separated from the service. Amounts also are due individuals who have canceled their pay roll bond deductions. An effort should be made to clear these accounts by payment of balances to the proper persons. The total amount accruing to these individuals after the pay roll week ending March 10, 1951, totaled \$398.07.

Division of Waterways

Books of Accounts: The previous audit report stated that the general ledger had not been posted since June 30, 1945, and that it was understood from the head administrative clerk that every effort would be made to bring it up to date. It was noted, however, that on the current audit date the same condition prevailed, namely, that no postings had been made to the general ledger since June 30, 1945. It is suggested that some way be found to make the necessary entries in the general ledger for the year ending June 30, 1951, and postings be made currently thereafter.

Delinquent Billings: Previous audit reports have commented on the fact that on the date of the respective audits, billings for use of pier facilities and license charges were not being made currently and in many instances were months late.

It was noted that although as of audit date, April 3, 1951, all billings were current, billings during the audit period had been made months after the pier facilities were used or licenses had been granted.

Accounts Receivable: In aging the accounts receivable it was noted that 106 accounts, totaling \$7,023.79 and dating back to 1949 and prior years, were still carried as active accounts receivable.

During previous examinations of the Waterways Division records, suggestions have been made that all accounts over one year old be turned over to the Attorney General for collection.

The Comptroller's Bureau Accounting Manual provides that all overdue accounts be referred to the Attorney General for collection and also provides that they be set up in a separate suspense accounts receivable. It is suggested that these provisions be followed.

Accounts Receivable - Verification Notices: The outstanding accounts receivable as of date of audit totaled \$32,841.78 and consisted of 170 accounts. Verification notices were sent out to approximately 20% of these accounts. A few of the notices were returned by the Post Office Department marked, "address unknown", "deceased", etc. A few others were returned with notations indicating they had no record of the charge and these cases were referred to the head administrative clerk with the request that duplicate bills be sent. From the foregoing it would appear that the accounts should be followed more carefully and in the case of overdue accounts, statements should be rendered monthly.

Income - Sale of Atlas Sheets, Blueprints, Maps, etc.: At present whoever sells any of these items merely writes a memorandum to the accounting office so that proper charges and collections may be recorded and effected.

It is suggested in these cases that the standard form of sales books be used in accordance with the Comptroller's Bureau Accounting Manual, which states:

"A sales book will be given to each person who has authority to make a sale on behalf of the Spending Agency. When a book is completely filled it must be turned in before a new one will be issued."

Income - New Bedford Pier: It was noted that the dates appearing on the reports of the Pier Superintendent for the use of the facilities and the date of the actual billings for these charges differ. It is suggested that all pier superintendent's reports be date stamped in the financial section of the Division of the Waterways upon receipt.

Certified Copy Charges: In checking from the register of charges for certified copies to actual billings, it was noted that in two instances certified copies were sent out but no corresponding charges were set up for these bills.

In order that there will be no recurrence, it is suggested that all certified copies be

prenumbered in the register with corresponding numbers on the actual bills. The accounting office will then be able to ascertain that all bills for certified copies are controlled through numerical sequence.

Gloucester Fish Pier: Under date of February 26, 1937 the Commonwealth of Massachusetts acting by its Department of Public Works in accordance with the provisions of Chapter 311 of the Acts of 1931, Chapter 303 of the Acts of 1936 as amended by Chapter 29 of the Acts of 1937 and Chapter 91 of the General Laws leased to Gloucester Community Pier Association, Inc., the Gloucester Fish Pier with certain buildings to be erected thereon at an annual rental of \$20,000.00, lease to run for twenty years. Under date of October 10, 1949, lease was extended for a twenty-year period to end September 30, 1969, and rent was increased to \$25,000.00 annually to be paid quarterly, beginning October 1, 1949.

Under the provisions of Chapter 653 of the Acts of 1945, as amended by Chapter 663 of the Acts of 1947, the Department of Public Works was authorized to expend not more than \$350,000.00 to make certain additions to the building and its equipment located on the Gloucester Fish Pier, provided that first the Department shall execute an agreement with the Gloucester Community Pier Association, Inc. to repay to the Commonwealth the cost of such work in twenty equal annual payments, the first payment to be made on the date of completion of said work. Such an agreement was made under date of October 10, 1945 and amended under date of September 3, 1947. The work under this project was completed on December 19, 1949 at a cost of \$349,479.34 and the first payment of \$17,473.97 was received on January 31, 1950, and the last payment will be due on December 19, 1968.

Leases Between Commonwealth of Massachusetts and the Fall River Line Pier, Inc.: By authority of Chapter 665 of the Acts of 1945 and Chapter 308 of the Acts of 1947, a lease was made for a term of twenty years from May 17, 1948 for a total rent of \$1,000,000.00 divided yearly as follows:

\$22,000 00 yearly	First 2 years	\$ 44,000 00
24,000 00 "	3rd year	24,000 00
30,000 00 "	4th year	30,000 00
38,000 00 "	5th year	38,000 00
46,000 00 "	6th year	46,000 00
51,000 00 "	7th and 8th year	102,000 00
50,000 00 "	9th to 14th year	300,000 00
55,000 00 "	15th year	55,000 00
63,000 00 "	16th year	63,000 00
70,000 00 "	17th year	70,000 00
76,000 00 "	18th, 19th and 20th year	228,000 00
Total		<u>\$1,000,000 00</u>

Said yearly rental shall be paid in equal quarterly payments as follows: to wit, the first quarterly payment to be made three (3) months following the day and year written above and subsequent payments thereafter on corresponding date of every third month in each and every year during said term.

In reference to the foregoing lease, it was noted that the last payment made under it by the Fall River Line Pier, Inc. was through February 19, 1950, and that charges have only been set up to May 17, 1950. On the date of audit, there was an outstanding balance of \$5,500.00 in this account.

In this connection, the following memorandum from the Chief Administrative Clerk to the Director of Waterways, which was entered in the board records on January 30, 1951, is shown:

COPY

-----, Chief Administrative Clerk

-----, Director

January 25, 1951

Fall River State Pier
unpaid rentals under lease

The last payment made by the lessees of the pier was for the quarter ending

February 17, 1950. Bills have been rendered for the ensuing three quarterly periods, ending November 17, 1950. Several conferences have been held by the Commissioners with Fall River officials relative to the Department's inability to complete construction due to insufficient funds. The Fall River officials have stated that they could not make any further payments under the lease, as they have been deprived of potential income from the property, due to its incomplete state.

It appears that some revisions in the lease will be required covering rentals, but these will necessarily have to be delayed, pending additional legislation to modify rental requirements as set up under the enabling act.

The question of our continuing to send rent bills was discussed with Assistant Attorney General Garret Barry, who attended several conferences at the Commissioner's request, and Mr. Barry advised that we send the bills and simply hold copies as a pending matter for future adjustment, without entering them as accounts receivable, since there appears to be some doubt as to whether or not the rentals are collectible under present conditions.

This memorandum is submitted as a matter of record.

/s/
Chief Administrative Clerk

BOARD OF REGISTRATION IN OPTOMETRY

REPORT No. 51-88

Renewal Fees Increase: Under the provisions of Chapter 463 of the Acts of 1949, these fees were increased from \$2.00 to \$5.00.

STATE TEACHERS COLLEGE AT NORTH ADAMS

REPORT No. 51-89

Accounts Receivable: A trial balance of the Accounts Receivable subsidiary ledger was drawn off as of April 16, 1951. It was noted that the detail of the subsidiary ledger did not agree with the control account in the amount of \$87.45.

This condition was commented upon in two previous audit reports. It is recommended that the accounts be properly adjusted.

Cash Shortage: A special examination of the cash accounts of this college was made as of October 27, 1950, for the period July 1, 1950 to October 27, 1950. As a result of this examination it was determined that a cash shortage of \$709.66 existed. This shortage has since that date been reduced by \$22.15, representing a refund on the salary of the former principal clerk, bringing the present shortage to \$687.51. The records of the college now reflect a cash shortage of only \$523.01. In addition to the aforementioned shortage, there is an amount of \$106.70, which was placed in the custody of the former custodian of the records, representing funds collected from students for the rental of academic apparel for the August 1950 commencement exercises. The bill for rental of apparel has not been paid to date. It was also noted that at the close of business on July 31, 1950, there was an actual cash overage of approximately \$28.00, which should reduce the overall shortage. It is recommended that these two items of \$106.70 and \$28.00 be entered on the records of the college so that the actual amount of the shortages will be evident.

Safe Combination: The present combination on the safe at the North Adams Teachers College has not been changed for a period of about ten years. It is recommended that this combination be changed and the new combination be entrusted to the President of the College and the principal clerk.

STATE PRISON

REPORT No. 51-90

Maintenance Stores: In connection with this current examination a test inventory was taken on April 9, 1951 of 80 items in the storeroom with a book value of \$4,530.97. This inventory indicated shortages totaling \$24.10 and overages totaling \$43.82. These variances appeared in 32 of the items inventoried.

Attention is also called to the fact that three physical inventories were taken by institution personnel during the period covered by the audit. Adjustments of the stock ledger accounts to correct variances were recorded as follows:

<u>Inventory</u>	<u>Overages</u>	<u>Shortages</u>
	<u>Physical Inventory</u> <u>Less Book Inventory</u>	<u>Book Inventory Less</u> <u>Physical Inventory</u>
April 30, 1950	\$250 83	\$446 66
June 30, 1950	485 21	214 15
April 2, 1951	236 91	280 30

It will be noted from the foregoing that although an inventory was taken by the institution personnel only seven days previous to that taken in connection with this audit, adjustments were again necessary.

In the period covered by the audit 190 inventory adjustments were made. Although there have been several changes in storeroom personnel, it was nevertheless obvious that those employees who are in charge of material and supplies, who were aware of these changes, should have taken the necessary steps to make certain that the records of the inventory in their custody should be correct.

It was also noted that the overages are adjusted on the issue side of the ledger, there by reducing the number and quantity of issues, and results in an incorrect total of the amounts issued. Overages should be adjusted on the receipt side of the stock ledger.

A comparison of the March 31, 1951 stock ledger trial balance was made with the balances in the stock ledger of that date. Several differences which indicated an incorrect trial balance were noted.

In one particular instance freight was not charged to the Materials and Supplies Account resulting in an understatement of the inventory and the several expense accounts involved.

There were also many glaring inconsistencies in the computation of unit costs, although the correct method is clearly delineated in the Comptroller's Accounting Manual. This was also a contributing factor to the inaccuracy of the records.

It was also noted that certain accounts still show book balances even though no items are actually on hand. This was probably due to the practice of pricing issues at a unit cost other than the average cost indicated on the records. These variances include the following:

<u>Trial Balance</u>			<u>Stock Ledger Balances</u>	
<u>Units</u>	<u>Amount</u>	<u>Item</u>	<u>Units</u>	<u>Amount</u>
5	\$30 00	Bug Juice	-	-
200	12 74	Split Peas	-	-
21	19 68	Poultry Seasoning	-	-

In view of the foregoing it is suggested that the Comptroller's Bureau be requested to instruct the personnel in the proper handling of these accounts.

Checks Signed in Blank: The previous audit report stated:

"It was noted that certain bank checks were being signed in anticipation of being used. It is suggested that this practice be discontinued immediately. The possible dangers are obvious."

As this suggestion has not been followed, attention is again called to it.

Inmates per Capita Cost: Based on the average population for the fiscal year ended June 30, 1950, the gross weekly per capita cost per inmate was \$26.56. This is an increase of \$4.16 per inmate over the 1949 fiscal year.

Maintenance - Officers Uniforms Purchased Through Appropriations: In this connection the previous audit report stated:

"Officers Uniforms are now purchased by the institution through the maintenance appropriation. An invoice for the purchase of 114 uniforms at a cost of \$4,168.55 was passed for payment July 19, 1949. It is suggested that a stock ledger account be kept for the purpose of control of these uniforms."

It was noted that the foregoing suggestion has been complied with and that the necessary stock ledger account has been set up and is in operation.

Canteen Fund: In connection with the examination of the inventory of the canteen sales tickets a duplication in numbers 28,501 to 29,000 in the inventory of the 50¢ tickets was noted. This was due to an error when the new tickets were ordered. Rather than destroy them, it was suggested that they be identified with an "A" before each number.

The net sales for the audit period were \$38,364.10. The net shortages, inventory and spoilage, totaled \$214.04 representing only 0.5579% of net sales.

The expenditures for the benefit of inmates were analyzed as follows:

Moving Pictures:			
Operation, Repairs, Film and Related Items		\$	436 08
Musical Instruments and Supplies			77 17
Holiday Items:			
Decorations	\$	9 17	
Ice Cream		848 72	
Cake, Pastry, etc.		471 09	1,328 98
Sports Equipment			183 75
Periodicals for Library			332 20
Electrical and Radio Supplies and Repairs			309 88
Printing			41 50
Miscellaneous			18 95
			<u>\$2,728 51</u>

Financial Records and Reports - Industries: In connection with this examination certain observations were made with respect to the records kept by the Industries Section of this institution, which effect the accuracy of the various individual reports that are prepared for the use and information of those who are necessarily concerned. These items include the following:

(a) **Inventory - Raw Materials:** It has been a practice at this institution to record the receipts of raw materials in the stock ledgers when they have been paid, even through these items have been issued to production centers. This accounts for red balances in the stock ledgers and inventory. The red balances, in reality, are issued from unpaid and unrecorded stocks and are not stock on hand. This distorts the cost of material used and increases the recorded profit.

(b) **Inventories - Goods in Process:** When inventories are taken goods in process are added back to the raw materials disregarding the value added to the raw materials in processing. This of course understates the inventories and indicates incorrectly that there were no goods in process at the end of the accounting period.

(c) **Purchases:** Purchases are not recorded in the records until they have been paid and the accounts payable liabilities are not indicated in the records.

(d) **Expense Items:** Expense items do not reflect all the expenses incurred in the periods reported but only those expenses which were paid for during that period. Items that should be distributed in proportion to the units produced in the accounting period are recorded as expenses of the month paid. In this connection attention is called to the fact that electric power used in the period May 25 to June 23 and June 23 to July 26 were recorded as August Expenses. Machinery and equipment that was rebuilt and life of which was extended for several years was charged to expenses in the month in which it was paid. Expensible items such as tool kits etc., were capitalized and new equipment such as fans and blowers were recorded as an expense.

From the foregoing it is obvious that the value of the information, which is included in the monthly Financial Report of the industries is basically incorrect because of the several inconsistencies indicated heretofore. It is, therefore, suggested that the entire accounting system be reviewed and the necessary adjustments to bring the procedure into conformance with modern accepted bookkeeping practices be made.

Variances in Value - Added to Raw Materials to Produce Finished Goods Costs: Essentially because of the shortcomings in accounting procedure enumerated heretofore it was noted in certain accounts the values added to the raw material costs to ascertain the

cost of a finished product varied in a twelve month period from 40% to 310%, and the costs of raw material actually used in the production of a finished item varied from 24% to 70%.

Machinery and Equipment: An examination of the Machinery and Equipment indicated several inconsistencies proving that the balances in this account are also incorrect. Expendable items were capitalized, and capital outlays were charged off as expenses. The general ledger or control account was not in agreement with the records kept in the various shops as follows:

General Ledger Account	\$133,666 55
Subsidiary Ledgers	131,238 85
Difference	<u>\$2,427 70</u>

It is also suggested in the interests of classification that these classifications of Machinery and Equipment should appear on the records:

- (1) Machinery and Equipment not fully depreciated
- (2) Machinery and Equipment fully depreciated
- (3) Obsolete Equipment
- (4) Disposed Equipment and nature of disposition

The Machinery and Equipment account should represent only the cost of the equipment and machinery. A Reserve for Depreciation Account should show the depreciation of this equipment. Both accounts should record entries of all transactions affecting equipment disposed of whether sold, scrapped or transferred to other state institutions, as well as equipment and machinery acquired by purchase, or transfers from other state organizations. These transactions are not presently recorded when the items are fully depreciated. Equipment and Machinery acquired from other institutions should also be entered by bringing their cost on to the books as a debit to Machinery and Equipment. Fully depreciated equipment transferred to other institutions should also be entered through these accounts. At present when items are disposed of, a notation is made on the subsidiary loose leaf ledger simply stating "gone". Items not fully depreciated were placed in the inactive subsidiary ledger and inactive items are included in the active accounts.

To further facilitate recording and checking it is suggested that each piece of equipment and machinery be tagged with a number corresponding to the number of the account in the subsidiary ledger.

Industries - Unfilled Purchase Orders: In this connection the previous audit stated:

"The Industry Fund is not encumbered when the order is placed as is the case with appropriation accounts. It is suggested that some control or limitation be placed over purchase requisitions so that the Industry Fund will not be in the position of not being able to pay its bills promptly, and of losing discounts."

Attention is called to the fact that a directive was issued by the Commissioner of Correction stipulating the purchase requisitions should not exceed the "Cash balance in the State Treasurer's Industries Accounts plus Accounts Receivable". This directive has been followed.

Industries - Heat, Light and Power: The previous audit report suggested a revision of the basis for charging overhead items to the respective industries in view of the fact that the charges have been made on the same basis for several years despite the fact that several industries have been removed to the State Prison Colony at Norfolk. In this connection the State Comptroller, in a letter dated December 15, 1950 stated:

"A review of this estimated charge in order to ascertain whether or not it is equitable seems to be an administrative problem. Inasmuch as it is planned to transfer the State Prison in its entirety to new quarters at Norfolk in the near future, the cost of such project would appear to be unwarranted at this time. Therefore, we feel that the present method of estimating the charges for heat, light and power to the Industries Section might be continued during the remaining period that the State Prison is to be located at Charlestown."

This method of reasoning is not particularly impressive, at this time. All record keeping and accounting generally presents administrative problems. But they should be solved, not procrastinated in the manner suggested. It may be a long period of time before the new quarters at Norfolk are made available, and in the interim the keeping of accurate records should be of prime importance.

Industries - Selling Prices Less than Cost and Established Price Lists: The audit report of the previous examination, called attention to the fact that certain items were being sold below their actual manufacturing costs. In this connection that report stated:

"In this connection the Supervisor of Industries stated that the Purchasing Bureau has purchased a quantity of Army Surplus underwear for State departments and agencies, and that it was necessary to decrease the selling prices of many underwear items in order to dispose of manufactured articles on hand."

There were little if any such purchases during the current audit period, yet the records indicate that the practice persists. A test check of certain sales in June 1950 and February 1951, indicated the following:

Department	Items Tested	Sales Below Cost	Per Cent of Sales below cost
Printing	36	9	25
Metal	85	7	10
Underwear	29	12	41
Brush	62	13	20

Catalogue of Prices: Sections 55 and 58 of Chapter 127 of the Tercentenary Edition of the General Laws, state as follows:

"Section 55 Annually in September the commissioner shall issue to the officers in charge of the offices, departments and institutions named in section fifty-three a descriptive list of the styles, designs and qualities of said articles and materials. Any difference between the prison officials and the officers, departments or arbitrators, whose decision shall be final. One of said arbitrators shall be named on behalf of the prison by the commissioner, one by the principal officer of the other offices, department or institution concerned, and one by agreement of the other two. The arbitrators shall be chosen from the official service, and shall receive no compensation for performance of any duty under this section; but their actual and necessary expenses shall be paid by the prison or office, department or institution against which their award is given.

Section 58 The price of all articles and materials supplied by the prisons to the commonwealth, counties, cities and towns shall conform as nearly as may be to the wholesale market rates for similar goods manufactured outside of the prisons. Any difference in opinion in regard to price may be submitted to arbitration in the manner provided in section fifty-five."

Attention is called to the fact that the last catalogue was published September 1941. Since then, although some effort was made during the latter part of 1949 and early 1950, no catalogue or price list has been made available to the prospective purchasers. Adherence to this law is important and steps should be taken to provide such a listing.

Industries - Shoe Repair Shop: The previous audit report suggested that the financial transactions of the Shoe Repair Shop which were included with the financial transactions of the metal department be reported separately. This suggestion has been put in practice.

Industries - Adjustments to Inventories: Previous audit reports have suggested that all adjustments of inventory records, both raw materials and finished goods, be entered in the general ledger control accounts as separate entries and not as additions to purchases or issues. As this suggestion has not been adopted, attention is again called to it.

Industries - State Farm Industrial Fund: In this connection the previous audit report stated:

"On the date of audit there was a balance of \$21,336.97 in this fund. Exami-

nation indicated that this balance has been on the books of the State Prison since June 30, 1945. It represents the profits on war contracts performed by inmates of the State Farm, Bridgewater, during the period September 1, 1944 to June 30, 1945. The purchases and sales of material on the above war contracts were recorded in the State Farm Industrial Fund account on the books of the Industries Section of the State Prison. This fund apparently is not the property of the State Prison nor the State Farm which had no Industries Section during this particular period. Since the above fund represents War Revenue and is serving no useful purpose on the books of the State Prison, it is again recommended that this fund be closed out into General Revenue."

It was noted that the aforementioned amount was transferred to General Revenue in conformance with this suggestion.

Unfilled and Incomplete Sales Orders: In this regard, the previous audit report stated:

"Thirty-one orders dated from July 1948 to December 31, 1949 were still unfilled or only partly filled on April 3, 1950. In addition 182 orders dated in January, February and March 1950 were also listed as unfilled or partly filled. It is believed that many of the older orders might have been canceled, but were not cleared from the records.

"It is suggested that the progress of orders be followed systematically. Orders upon which no further shipment will be made should be cleared from the records as soon as this fact is determined."

An effort was made in connection with the current audit to trace the unfilled orders referred to. It was noted however, that several of these orders could not be located or were canceled. It was also noted that forty sales orders dated prior to June 30, 1950 were still unfilled as of date of the current audit.

When this matter was brought to the attention of the proper institution personnel, it was indicated that the cancellations and unfilled orders were due to shortages of critical materials because of the war mobilization effort. It was further explained that there was also a rapid turnover of available inmates resulting in inexperienced help.

Inmates Personal and Wage Fund Accounts: In this connection the previous audit report stated:

"Five inactive balances have been carried in the trial balances of these fund accounts for several years. The amounts should have been corrected before, and it is again suggested that the necessary adjustments be made and the balances removed from the records. The five items are as follows:

Inmates Personal Fund Account	\$3 50 deficit
Inmates Wage Fund Account - Savings	4 00 deficit
Inmates Wage Fund Account - Savings	3 50 deficit
Inmates Wage Fund Account - Dependents	7 00 deficit
Inmates Wage Fund Account - Dependents	2 64 balance"

In conformance with the foregoing it was noted that the necessary adjustments were made during the period covered by this audit and the accounts were properly removed from the records.

Inmates Personal Funds - Cash: In this connection the previous report stated:

"It was noted that cash receipts were not being deposited exactly as they are received. Part of the receipts, checks, post office money orders, are deposited as received but the currency was deposited after accumulation. The reason given for withholding cash was the necessity of having to pay inmates with currency upon their release."

It was noted that the suggestions indicated were adopted and put into operation during the current audit period.

EMERGENCY FINANCE BOARD

REPORT No. 51-91

Activities of Board: A summary of the statutes and the respective number of cases requiring board action or approval for the fiscal year ended June 30, 1950 follows:

Description	Statute	No.	Pro-Rata Expense
Post War Rehabilitation	Chap. 5 Acts of 1943	20	\$ 1,426 00
Public Works Projects	Chap. 74 Acts of 1945	30	3,834 15
Creation of Stabilization Fund	Chap. 124 Acts of 1945	3	186 00
Extraordinary Repairs to Public Buildings	Chap. 275 Acts of 1948	8	682 00
Municipal Relief	Chap. 90 Acts of 1949	22	4,315 00
Use of Certain Loan Proceeds by City of Malden	Chap. 376 Acts of 1949	1	-
Formation of Regional School Districts	Chap. 638 Acts of 1949	4	340 00
Totals for 1950 Fiscal Period		88	<u>\$10,783 15</u>

Total number of Board Meetings - 1950 Fiscal Period

40

Bookkeeping Records: It was noted that the Allotment Expenditure Control Register, a regular State accounting record, was discontinued as of June 30, 1949. It is suggested that this record be restored for recording State expenditures.

SERGEANT - AT - ARMS

REPORT No. 51-92

Bonded Employees: The reconciliation of the Advance monies on the date of audit April 11, 1951 indicated that three advance funds totaling \$5,000.00 were in the custody of one general court officer and one advance fund of \$4,800.00 was in the custody of another general court officer.

At present all court officers are bonded for only \$1,000.00 each and when traveling six court officers are bonded for an additional \$2,000.00.

It is suggested that the bond coverage be increased so that the funds may be more adequately protected.

PUBLIC BEQUEST COMMISSION

REPORT No. 51-98

Accumulation of Fund: Section 28C of Chapter 6 of the Tercentenary Edition of the General Laws reads as follows:

"Section 28C. Distribution of Income - When, and so long as, the principal of said fund amounts to five hundred thousand dollars, said commission, with the approval of the governor and council, may distribute, in accordance with its rules and regulations relative thereto, the income from said fund to such worthy citizens of the commonwealth, as, in its opinion, by reason of old age and need, are entitled thereto. No man under sixty-five and no woman under sixty shall be deemed to be entitled to assistance from such fund."

It is noted that the total amount accumulated in this fund since September 1, 1929 is only \$3,741.20. Since no payments may be made from the fund until the principal amounts to \$500,000.00, it is apparent that unless contributions are increased to a far greater extent than those which have been received to date, there is little likelihood that the purpose for which the fund was created will ever be carried out.

STATE LIBRARY

REPORT No. 51-99

Unpaid Rental June 30, 1950 - not Listed in Accounts Payable - 1950: An examination of the expenditures for the period under audit indicate that the rental of space in the New England Deposit Library for the calendar year 1949, amounting to \$4,500.00, was charged in its entirety to the appropriation for the fiscal year ended June 30, 1950. In this connection, it was noted that the liability for the rental charge in the amount of \$2,250.00 for the six months ending June 30, 1950 were not included with the Accounts Payable as of June 30, 1950. It was also noted that the rental charge for the calendar year 1950, \$4,500.00, was entirely charged to the 1951 appropriation.

Data on Books, Maps and Charts "Lost or Missing" Omitted from the Annual Report for 1950: Chapter 6, Section 37 of the Tercentenary Edition of the General Laws reads as follows:

"Annual Report of Trustees

"The trustees of the state library shall keep records of their doings, and shall make an annual report thereof, with a list of books, maps and charts lost, missing or acquired during the preceding fiscal year, specifying those obtained by exchange, gift or purchase, and such suggestions for the improvement of the library as they may deem proper."

The contents of the Annual Report for the 1950 fiscal period do not include any list of books, maps and charts, lost or missing during the 1950 fiscal period. It is suggested that such lists be made available with future annual reports.

DIVISION OF FISHERIES AND GAME

REPORT No. 51-101

Income: As of date of audit, returns of the receipts from the sales of 1949 licenses in the amount of \$25.25 and 1950 licenses in the amount of \$6.00, a total of \$31.25, had not been received by the Division from the Town of Mashpee. It was noted that the Town of Canton paid \$98.00 which was unpaid on April 25, 1950 for 1949 licenses sold during the current audit period.

It is suggested that the balance which is due from the Town of Mashpee, be entered in the accounts receivable account in the general ledger. If further efforts to collect it prove fruitless it should be turned over to the Attorney General for disposition.

Void Licenses: The previous audit report included the following comment:

"Void Licenses: There were several instances where license stubs were marked 'Void' in pencil, however, the voided license were not attached nor was an explanation available. Other instances were noted where the license had been torn from the license book presumably by the printer. It is suggested that a memorandum should be made available by the director covering each such transaction for the audit purposes."

It was noted in connection with the current examination that the same situation prevailed for the 1950 license year. It is, therefore, suggested that the Director advise the various city and town clerks of the necessity of returning these voided licenses to the Division license clerk where they will be available for audit.

Cashing Personal Checks: In this connection the previous audit report stated:

"It was learned that personal checks had been cashed by persons from the office cash drawer. This is in direct violation of the instruction in the Comptroller's Manual and the practice should be immediately discontinued."

It was noted that the practice indicated has been corrected in accordance with the foregoing suggestion.

Persons Bonded: In this connection the previous audit report also stated:

"It would appear that all persons handling state monies are not bonded. At the present time only the Director and two Principal Clerks are bonded.

"It was learned that during lunch hours when the regular clerks who take care of the counter to give out licenses were not available, a clerk from the Division of Law Enforcement, which is entirely a separate division, took over these counter duties. This matter was discussed with the Director of the Division who indicated that other arrangements would be made in the future."

Attention is called to the fact that arrangements were made during the current audit

period to correct this situation.

Shortage in Income Cash Account: The previous audit report mentioned shortages in the income cash account of \$25.00 and \$28.00, amounts which had mysteriously disappeared from a locked cash drawer. The total difference was finally recorded as \$55.00. In this connection the following memorandum dated May 21, 1951, was received from the Director of the Division:

"For your information, on May 17, 1951 the Division of Fisheries and Game received \$25.00 from the State Superintendent of Buildings as reimbursement for license money which was missing from the counter drawer on April 15, 1950."

The balance of the shortage, \$30.00 should be brought on to the books of the Division where it should remain until proper authority is obtained to write it off.

It was also noted that the Comptroller's Bureau has now provided this Division with a proper routine for handling income received for licenses issued directly by the Division.

Inland Fisheries and Game Fund: This account does not appear on the books of the Division. The surplus account for the fund is also not carried on the control records. It is understood that the Comptroller's Bureau agrees that these accounts should not be included in the general ledger accounts of the Division. Therefore, it is suggested that the Comptroller's Bureau forward to the Division, at the close of each fiscal year, a reconciliation of the surplus account for that year.

Wildlife Co-operative Research Project Contribution: An amount of \$6,000.00 was appropriated to the Division for the fiscal year ended June 30, 1950, but the account was not included in the records of the Division for that year. It was learned that the Federal Government grants \$6,000.00 for this purpose and the University of Massachusetts also receives an appropriation of \$6,000.00 for this project. The records are maintained, however, at the University of Massachusetts in Amherst. It is suggested that all future appropriations for these purposes be requested by the University of Massachusetts, as this Division apparently has no control over the expenditures of these funds.

Pay Roll - Temporary Employees: It was noted that the temporary pay roll totals approximately \$160,000.00 per year, while the permanent pay roll for the fiscal year ended June 30, 1950 amounted to only \$152,890.95. Amounts paid for services, non-employees for the same year totaled only \$14,160.45.

License Books not Accounted For: It was noted that one book of Series No. 3 - 1950 licenses, Nos. 62551 to 62600, was not accounted for. Two letters were sent to the particular Town Clerk requesting that the book in question be returned. It was noted that a letter from the law enforcement officer in the district is on file, which states that the Town Clerk claims to have returned the book intact.

It was also noted that a book of Series No. 1 - 1950 licenses was sold, but the stub book was not available for audit. The license clerk indicated that the book of stubs was never received, and the Town Clerk agrees that the book was lost. The record turned in by the Town Clerk indicates that there were six "Void" licenses in that particular book. The other licenses were paid for.

Contract for Fish Trap at Otis: The Contract for this Fish Trap was awarded April 5, 1950, the work to begin on May 1, 1950, and was to be completed in 60 calendar days. The contract further provided for liquidated damages of \$10.00 per day. It was noted that although the final approval for the work was recorded as of December 5, 1950, no liquidated damages were collected.

DEPARTMENT OF CONSERVATION

GENERAL DEPARTMENT

REPORT No. 51-102

Advance Money: In this connection the previous audit report stated:

"The two previous audit reports commented in detail upon the bookkeeping conditions noted at the time in relation to the advance monies, and quoted Sections 23 and 24 of Chapter 29 of the General Laws. As of the date of the current audit the following conditions were again noted:

- "1. Returns of Advance monthly reports include expenditures against anticipated future receipts of Advance Money, and not the actual cash on hand available at the time the expenditures were made.
2. Monthly reports of Returns of Advances in many cases include expenditures made and recorded subsequent to the date shown on the monthly report.
3. Monthly reports of Returns of Advances are not forwarded to the Comptroller on the date compiled, but are retained in the department until the amounts of anticipated receipts from the State Treasurer have been received.
4. All advances are deposited in one bank account, against which two series of checks are drawn; one for pay rolls and the other for expenses.
5. Semi - Monthly pay roll expenditures are recorded in the Cash Disbursements - but - with no entry made for the amount of Withholding Taxes and Retirement Deductions being recorded, thereby allowing these funds to be available for expenditures of other items.

In view of the foregoing the following suggestions are again offered, which it is believed will correct the practices indicated heretofore:

1. Monthly reports of Returns of Advances reflect only the accounts of actual recorded receipts and expenditures for the periods covered by the reports.
2. Requests for advances be made for sufficient amounts to eliminate the mis-use of accounts balances.
3. Receipts and/or refunds of disallowed items be recorded individually in the Cash Book by account number.
4. Expenditures be recorded individually in the Cash Book by account numbers.
5. A pay roll bank account be opened, in which the gross amount of pay rolls will be deposited and against which pay roll checks will be drawn."

"Allotment Expenditures Control Register: In this connection the previous audit report stated:

"An allotment Expenditure Control Register is maintained in the central book-keeping office of the Department for the following Divisions:

1. Administration
2. Marine Fisheries
3. Forestry
4. Law Enforcement

The division of Parks and Recreation maintain an Allotment Expenditure Control Register in that division.

An Accounting Manual, issued by the Comptroller's Bureau is on file and available for the assistance and guidance of the personnel in the central book-keeping office. However, the procedures as outlined in this accounting manual in reference to Encumbrances and Liquidations of Allotments is not being followed by the department.

The attention of the department officials is specifically called to pages 35 to 40 inclusive, of the accounting manual, a copy of which is on file in the Central Bookkeeping Office."

"During the current audit period the following situation was noted:

On August 3, 1949 the Comptroller's Bureau issued thirty-two Journal Entries to close the books of this Department for the fiscal year ending June 30, 1949. Ten of these Journal Entries affecting approximately thirty-seven accounts were not used by the department. No Journal Entries were issued to close the balances in the sixteen allotment accounts; six of these Journal Entries were issued to close or revert the balances in the appropriations accounts, which balances did not appear on the books in these accounts, but was used in closing both the appropriation and allotment accounts. One of these Journal Entries was partly used.

While this audit was in progress a member of the field staff of the Comptroller's Bureau visited this department. As a result of this visit the following letter was sent by the State Comptroller to the Department:

COPY

Commission on Administration and Finance

State House, Boston

May 31, 1950

Mr. Arthur T. Lyman, Commissioner
Department of Conservation
15 Ashburton Place
Boston, Massachusetts

Dear Sir:

A visit was made to your Department by a member of the Field Staff of this Bureau. The records maintained by your Accounting Division were examined during the course of this visit.

The scrutiny of the records showed that many procedures set forth in the Accounting Manual are not being complied with by the personnel who are charged with this responsibility. No action has been taken to rectify conditions which were criticized in the last Audit Report, despite the fact that several months have elapsed since the Report was published.

It is recommended that prompt and vigorous action be taken to have these conditions rectified without further delay.

Very truly yours,

Fred A. Moncewicz
Comptroller

by R. E. Houghton
Deputy Comptroller"

EJT/D

It was noted in connection with the current examination that the proposed suggestions indicated have been satisfactorily adopted and put into effect.

Accounts Receivable with Attorney General: The two previous audit reports stated in this respect:

"Attention of the department officials is called to page 43 of the Accounting Manual, relative to the procedure to be followed when accounts are forwarded to the Attorney General for collection."

As this recommendation has not been followed, attention is again called to it.

Bonded Positions: At the present time there are only four employees bonded. A comment in this regard has appeared in previous audit reports and each time it was suggested that all employees handling funds be bonded.

It was noted that a request has been made in the 1952 budget for funds to meet the premium of a faithful performance and fidelity position schedule bond.

Parks and Salisbury Beach Reservation Fund: The previous audit report stated in this connection.

"Under authority of Sections 4, 5 and 6 of Chapter 132A of the General Laws (Tercentenary Edition), as amended, the Comptroller annually estimates the amount of "State Parks Assessments" so-called, against certain cities and towns

in the Commonwealth. On June 30, 1948 there was an accumulated surplus from this source of \$57,210.64, as shown by the records of the Comptroller.

"As of June 30, 1949 there was an accumulated surplus in this fund of \$64,572.18."

It was noted that as of June 30, 1950 the accumulated surplus totaled \$126,953.58 and it is again recommended that the Comptroller's Bureau be requested to open accounts in the General Ledger so that this surplus may be properly recorded on the financial records of the Department.

Receiving Records: Previous audit reports stated in this respect:

"At present, the receiving records consist of the following - there is a so-called "Receivers Copy" for the State Purchase Bureau purchase orders, and for departmental purchase orders, which are signed by the person receiving the merchandise, but for N. P. O. purchases the receipt of the merchandise is indicated by the signature of the person receiving the goods on the invoice itself.

"It is recommended that the Comptroller's Bureau be requested to provide the standard duplicate copy receiving book, which should be used in all places where merchandise is received."

As this recommendation has not been adopted, attention is again called to it.

Central Bookkeeping Office: Previous audit reports have stated:

"The central bookkeeping office was established in 1940, and it is recommended that the Comptroller's Bureau review the entire bookkeeping set up of the department to determine whether some of the detail now being done in the central bookkeeping office is not being duplicated in the several divisions."

As this has apparently not been followed attention is again directed to it.

General: The previous audit report stated in this respect:

"In this department there are three divisions. All income received by the various divisions is turned over to the head bookkeeper in the department who deposits the income with the State Treasurer on a regular receipts voucher. An analysis of receipts by divisions is made and recorded in a loose leaf binder. It is then entered in the general cash book in totals by divisions.

"It is suggested that each division should deposit with the State Treasurer all income received on a regular receipts voucher and submit a copy of it to the head bookkeeper in the department, who in turn will record it in the general cash book.

"It is further suggested that each division keep its own special column in income cash book."

As this suggestion has not been adopted, attention is again called to it.

Store Accounts: It is again recommended that the Comptroller's Bureau set up a control account in the General Ledger for the unissued supplies kept in the storehouses at Stow. The supplies now include such items as D.D.T., Gasoline, New Tires and Tubes, Radio Parts, Auto Parts, and other supplies.

Pay Rolls - Paid by the Department: It is suggested that the Comptroller's Bureau be contacted relative to reviewing the present procedure of compiling the pay rolls and also the methods employed in paying employees semi-monthly from an advance made by the State Treasurer. The June 30, 1950 financial report indicated that the salaries for the permanent positions totaled \$441,575.90, the salaries for others totaled \$44,198.03, and payments for the services by non-employees totaled \$43,775.54. The amounts paid for salaries other than to permanent employees certainly warrants a control similar to that maintained for permanent employees.

Forestry - Wood Sales: It is suggested that a permanent inventory control be kept of all cut wood on hand. It is further suggested that a control be also maintained over the con-

tracts for purchases of wood from the forests.

Parks and Recreation - Accounts Receivable: The division has been unable to collect a balance of \$85.00 for a concession permit which was awarded on April 29, 1949 in the original amount of \$125.00. A payment of \$40.00 was received July 10, 1950, but no further payment has been made.

It is suggested that this account be entered on the general books as an account receivable and forwarded to the Attorney General for collection. It is also suggested that all unpaid overdue accounts be turned in to the main office of the Department to be recorded as accounts receivable.

Parks and Recreation - Rentable Property Vacancies: The list of rentable property furnished by the director listed vacancies at Bradley Palmer Park, Nickerson Park, Skinner Park and Swann Forest.

Marine Fisheries: Application for Weirs, Pound Nets or Fish Traps, - construction and maintenance, and application for Bed Certificate as to the sanitary condition of certain tidal waters and flats are received at this division. The applications carry no fee and it is suggested that consideration should be given to the advisability of charging a fee for these services.

BOARD OF REGISTRATION OF BARBERS

REPORT No. 51-103

General: Section 41 of Chapter 13 of the Tercentenary Edition of the General Laws provides:

".....provided, that the salaries and expenses of the members of the board and the expenses of the board shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

It was noted that the salaries and expenses exceeded the receipts for the four fiscal years, 1947, 1948, 1949 and 1950.

It is hoped that recently authorized rate increases on certain licenses will help decrease the excess of disbursements over receipts.

RUTLAND STATE SANATORIUM

REPORT No. 51-104

Farm: The previous audit report commented in some detail, about the 1948 farm report and the condition of the farm accounting records.

During the course of the current examination the 1949 and 1950 farm reports were checked and in this connection it was noted that many of the shortcomings indicated in the previous audit report had not been corrected. It was also noted that these farm reports were not in agreement with the institution's financial records.

Formerly the principal activity of the farm at the institution was the production of milk for consumption at the institution. In the latter part of 1950 it was considered advisable by both the Department of Public Health and the Commission on Administration and Finance to discontinue the farm. The discontinuance of the farm had been contemplated for some time because of the increased farm costs in relation to the value of the farm production. It is estimated that the budget for the 1952 farm year would require the expenditure of \$65,380.00 for items ordinarily produced at the farm and that the food produced as a result of this expenditure could be purchased for \$31,310.00. A savings of \$34,070.00 could therefore be anticipated providing the farm was discontinued. In addition a considerable amount of money could be obtained by the sale of farm buildings, land and equipment.

As of the date of the current examination the herd had been entirely disposed of by sale based upon bids by various cattle dealers and others. The only livestock on hand consisted of a number of pigs. It is planned to slaughter these animals for use at the institution as they are needed.

Cases with Attorney General for Disposition: On date of audit there were two old accounts totaling \$837.00 which appeared on the records as having been referred to the Attorney General for disposition. No record of these accounts however could be found in the files of the Department of the Attorney General. Correspondence on file in the institution treasurer's office indicated that these accounts had been referred to the Business Agent's office of the Department of Public Health by the institution treasurer in 1944, 1950 and 1951 with instructions that they be forwarded to the Attorney General.

It is therefore recommended that the Department Business Agent submit all cases to the Attorney General promptly.

REFORMATORY FOR WOMEN

REPORT No. 51-105

Sales to Employees: In connection with this current examination, it was noted that certain services are sold to employees at prices, which by today's standards, appear preposterously low. Attention is called to the fact that laundry is charged for at the rate of only 44 cents per dozen pieces, and household gas is billed at only 8 cents per cubic foot. It is suggested that an effort be made to review the basis of these charges and if possible, arrange to make the charges commensurate with their actual market values.

Accounts Receivable Collections: It was noted in many instances that certain employees are not paying their room rent or household gas charges very promptly. In certain cases, these payments were found to be four to six months in arrears. It was also noted that other institutions within the Department of Correction owe substantial amounts for milk and farm produce which has been outstanding for several months. It is suggested that steps be taken to keep all of these accounts on a current basis.

Farm: It was noted that the annual report showed sales of \$7,651.22 while the farm ledger showed sales of only \$7,604.36, a difference of \$46.86. These two records should always be in reconciliation.

The farm records indicate that 187,805 quarts of milk were produced at a cost of \$.107 per quart and 16,826 pounds of pork were produced at a cost of \$.248 per pound.

Attention is called to the fact that the acreage of ensilage was increased in 1950 from 5 to 15 acres and resulted in approximately a threefold production cost increase. However, production was increased only from 240 tons to 260 tons and created an operating loss of \$456.00 in 1950.

Maintenance Charges: The usual difficulty encountered in auditing maintenance charges in other State institutions was also met here. Because of the lack of proper records, it was determined to be impossible to audit this income. It is therefore, recommended that the Comptroller's Bureau be requested to provide a register or other suitable records to provide the necessary data for a complete audit of this income.

Canteen Fund: Attention is called to the fact that the proceeds from bank interest on inmates' funds and certain vending machine commissions are being credited to this fund. In this connection, it was noted that Rule No. 10 of the Department of Correction's regulations regarding canteens states:

"Receipts, except those from the sales of merchandise, are not to be included in canteen funds."

This rule would appear to preclude the crediting of the aforementioned items to this fund.

It was also noted that the canteen now sells coffee, doughnuts, etc. It was also noted that it is now open on a "full time" basis, with the result that the sales were approximately doubled in the past year.

Industries Goods Sold at a Loss: A test review was made of the relations between cost and selling price of certain invoices shipped in September 1950. In this connection, it was noted that in the invoices tested an aggregate loss of \$2,946.00 was suffered. Among the items sold at a loss were included the following:

<u>Items</u>	<u>Cost Per Unit</u>	<u>Selling Price Per Unit</u>
U.S. Wool flags 6 x 10	\$12 89	\$11 75
U.S. Wool flags 5 x 8	9 42	8 75
U.S. Wool flags 8 x 12	21 91	19 00
U.S. Silk flags 3 x 5	29 90	23 80
#84 Hose	4 80	3 25
#102 Hose	3 61	2 80

Towels	17 x 30	4 47	3 40
Towels	18 x 36	5 30	4 04
Crash towels	17 x 30	4 07	3 28
Crash towels	18 x 36	5 30	3 89
Brown draw sheets	54 x 72	18 60	15 53
Examining capes		9 88	7 00
Bleached pillow cases		9 47	8 27
Roller towels	18 x 72	10 73	7 07
Surgeons' gowns		36 05	35 00
Eggs - pullets		52	31
Eggs		52	36
Chicken		61	38
Fowl		54	34

It is suggested that a study be made of the processes involved so that a reasonable profit will be realized on practically all sales. There appears to be no question that the costs are somewhat inflated because of the methods used in overhead application and it is, therefore, also suggested that the Comptroller's Bureau be requested to provide assistance in this direction.

It was noted that both the Knitting and Poultry Industries showed losses for the 1950 fiscal year, as follows:

Knitting	\$4,127 94
Poultry	9,529 26

For all the industries the net sales comprised \$269,633.00 with a net over-all percentage of profit of 6.96%, which appears to be the lowest percentage of profit in the past eleven years.

Industries - Unfilled Orders: On the date of audit, it was noted that there were unfilled orders on hand as follows:

Sewing Department	\$17,213 24
Flag Department	4,549 30
	<u>\$21,762 54</u>

Of the foregoing total unfilled orders dating back to the 1949 calendar year totaled \$2,641.00.

In connection with the foregoing, it was learned that although there are 63 machines in the Sewing Department, an average of only ten inmates have been assigned to work there.

Industries - Poultry Records: No production or inventory records were available in this department; therefore, no comprehensive analysis of the poultry transactions could be obtained. Attention is called to the fact that even though the statutes suggest that complete inventories be taken each year, only the grains in this department are inventoried.

SCHOOL BUILDINGS ASSISTANCE COMMISSION

REPORT No. 51-106

Construction Grants: As of the date of audit, this Commission, in compliance with Chapter 645 of the Acts of 1948, as amended, has paid out \$740,313.78 to the cities and towns of the Commonwealth as financial assistance for the construction of school buildings. A total of \$1,600,000.00 has been appropriated by the General Court for this purpose. Grants by the Commonwealth in excess of \$4,400,000.00 have been approved upon completed projects based upon construction costs in excess of \$13,700,000.00. In addition to the foregoing, it is estimated that new grants of over \$19,400,000.00 will be made upon estimated costs of approximately \$60,000,000.00 upon projects now in process of construction.

Although Section 8 of Chapter 645 of the Acts of 1948, as amended, provides that payments may be made upon an "estimated" approved cost of construction, it is the policy of the Commission not to make any payments until the determination of the "final" approved cost.

Financing: Most cities and towns issue bonds to finance construction of School Buildings. The grants made by the Commonwealth are paid in installments over the life of such bonds unless the project is financed to the extent of fifty per cent or less of the approved

cost. In the latter case, the grant would be paid in five equal annual installments.

State Accounts: At the present time there are no books of account set up for this Commission other than an allotment expenditure control register. This is merely a type of subsidiary record. No bookkeeping record is kept showing the appropriations to date and the present balances thereof. It is, therefore, recommended that a general ledger be set up containing all necessary State accounts.

STATE BOARD OF RETIREMENT

REPORT No. 51-107

General - Condition of Accounts: For the past three years, it has been deemed impossible to complete the annual audit which the law requires of the Department of the State Auditor. In this connection, attention is called to the following comments which have appeared in the past two audit reports:

"As was indicated earlier in this report only certain financial transactions in this department could be verified in connection with the current examination. The reasons extended by the department officials follow:

"During the 1946 and 1947 legislative sessions the entire State Retirement Law was rewritten. In this connection, the Board of Retirement was directed by the Division of Insurance to recompute all members' balances with particular regard to the interest credited. This resulted in three breakdowns of deposits and interest on practically all of the 22,000 members accounts.

"Inasmuch as this change was not authorized by the Division of Insurance until January 1949, the Board of Retirement was faced with the physical task of accomplishing these changes within a short time prior to the beginning of this audit.

"This work is now nearly completed. However, the proving of the interest and the balancing of the various control groups with the controls in the special and general ledgers are not yet finished for the year 1948. A trial balance of the General Ledger could not therefore be taken as of December 31, 1948.

"Machine Bookkeeping: The present system of manual accounting on the members' account cards is being replaced as of January 1, 1949 by machine bookkeeping and it is presumed that this arrangement will expedite the work to a great extent."

This examination terminated on May 18, 1951, and on this date the employees of this Board were still in the process of completing the 1949 pay roll posting of the individual employee's accounts through the "new" bookkeeping machines. It is obvious, of course, that in order to complete an audit of this department's accounts, it is necessary to have all postings completed, preliminary to the calculation of interest and the proving and balancing of the special and general ledgers, etc. Because this work was not even remotely completed, it was for the third successive year necessary to limit the amount of the work done in connection with this so-called examination to the few items outlined in the earlier part of this report.

It is evident from the foregoing that no successful effort has been made to bring these records to a current basis. As an audit of this scope indicated is in no way considered satisfactory for any purpose whatsoever, it will be necessary for the officials of this Board to take steps to see that all records are completely posted in the near future. It is also advised that all postings henceforth should be completed within a reasonable length of time after the close of the calendar year, allowing sufficient time to complete a comprehensive audit by the following June 30.

Retirement Statements: Attention is called to the fact that because of the condition of the individual employees' records no annual statements of accounts have been given to the respective members of the State Retirement Board for any year subsequent to that for the calendar year ending December 31, 1948.

Refunds: Attention is called to the fact that there were on April 23, 1951, 666 applications for refunds which had not yet been processed. The following shows the aging of these applications:

<u>Period</u>	<u>Number of Applications</u>
Feb., Mar., Apr., 1951	275

Nov., Dec., 1950, Jan. 1951	197
Aug., Sept., Oct., 1950	97
May, June, July, 1950	17
Feb., Mar., Apr., 1950	9
Nov., Dec., 1949, Jan. 1950	42
1949 - Prior to Nov. 1949	27
1948	2
Total	<u>666</u>

There were also on hand on that date approximately 800 applications for refunds which had been partially processed but not completed. These applications to be entirely processed still require the posting of individual interest. They must also be scheduled for payment to the individuals concerned.

WESTFIELD STATE SANATORIUM

REPORT No. 51-108

Adjustment of Charges: Rebates and refunds of board charges are approved only by the institution treasurer. It is recommended that these adjustments be approved by the Superintendent.

Bids and Specification Deposits: Included in the State cash on hand is \$20.00 for Bid and Specification Deposits. This amount was received and entered on the records of the institution on December 8, 1949 by the former Treasurer, who is now on a military leave of absence. The present officers of the institution are unable to identify this amount. It is recommended that this money be turned over to the State Treasurer as income.

Materials and Supplies: A test inventory of the Materials and Supplies on April 30, 1951 indicated aggregate shortages of \$394.90 and overages of \$502.64. Adjustments made during the audit period totaled \$2,263.97. Of this amount \$1,391.25 represented overages and \$872.72 shortages. Adjustments were necessitated by clerical errors, spoilage, shrinkage, etc.

Farm: It was noted that the farm at this institution has now been abolished. In this connection, it was noted that whereas it cost only 15.72 cents per quart to produce milk in the 1950 year, which included both whole milk and cream, it now costs this institution 14.45 cents per quart to purchase whole milk and 48.2 cents per quart to purchase cream.

Control of House and Room Rents: The records of this institution pertaining to houses and rooms available for rental to employees are inadequate for audit purposes. It is recommended that a representative of the Comptroller install a system for the proper control of these items.

DIVISION OF ACCOUNTS

REPORT No. 51-109

Advances to Employees: It was noted that the accounting for the "Advances to Employees" is handled contrary to the Comptroller's Manual of Accounting Procedure.

When cash is advanced to employees a signed receipt for such advance should be procured. This receipt then becomes part of the cash balances until such time as the cash is returned or a voucher is received for its expenditure. In no event should there be an entry made in the cash book for an advance until such time as the money is expended.

BOARD OF REGISTRATION IN PHARMACY

REPORT No. 51-110

Current Pending Applications: These items as of May 1, 1951, consisted of sixty-four applications for examinations for Registered Pharmacists, twenty drug store permits, fourteen for Certificates of Fitness, two for Wholesale Druggists, one for re-instatements, and five for duplicate certificates.

Pending Applications in the Inactive Files: These applications represented sixty-four who have failed to appear for examinations.

Numbering of Certificates: It was noted in the previous audit report that the certificates issued to Registered Pharmacists upon passing examination were numbered by a hand numbering machine by the Pharmacy Board personnel. It is again suggested that this numbering of certificates be done by the printer.

STATE PRISON COLONY AT NORFOLK

REPORT No. 51-111

Maintenance Section

Accounts Receivable: It is suggested that the amount of \$566.67 which is owed for rent by an employee be referred to the Attorney General for disposition. This amount accumulated over a period of several months when the regular rent deductions from the pay roll ceased upon recommendation of the Attorney General after an eviction notice had been served upon the employee.

Industries Section

Adjustments: It is noted that the total of the inventory adjustments shows a substantial increase for the year 1950. The total adjustments for 1950 were \$1,999.06 as compared with \$1,039.25 for 1949. It is suggested that an effort be made to see that they are reduced to a minimum.

Inventories: The ratio of inventories to sales shows a substantial improvement over the previous year. The ratio for 1950 was 52.01% as compared with 61.29% for 1949. This ratio is still quite high and an effort should be made to further reduce it.

Profit from Operations: The profit for the fiscal year 1950 was \$121,955.59 as compared with \$71,406.23 for 1949. The total sales for 1950 show a substantial increase which resulted in a much higher profit and an increase in the percentage of profit of 6.69%. This is a substantial gain over 1949 and all divisions except the shoe division reported favorable profits. The shoe division reported a loss of \$432.82 an improvement over the loss of \$6,917.91 for the fiscal period of 1949.

INDUSTRIAL SCHOOL FOR GIRLS

REPORT No. 51-112

1949 Farm Year: The 1949 farm report was checked in detail and an effort was made to reconcile inventories, production, costs, etc., as indicated in this report with the financial records of the institution. In general, these two sets of records did not agree due to errors in posting and differences in interpretations of farm items.

This report showed sales totaling \$4,392.81. These items were, in effect, merely transfers of produce to various State institutions. Of this amount, \$669.80, representing the value of produce sold to the State Farm at Bridgewater for the sum of \$5.00, was accounted for in the cash book. The balance, \$3,723.01, could not be traced to any record of cash receipts or written authorization empowering this institution to effect such transfers.

In this connection, attention is called to the fact that it has been the practice at State institutions to sell such items for nominal amounts with the approval of the State Purchasing Agent. As this was not done at this institution, the matter was discussed with the business agent of the Youth Service Board under whose direction these transfers of produce took place, who stated that he had communicated with the State Purchasing Agent at the time of the transfers and had received verbal approvals. He also indicated that he would obtain written confirmation from the State institutions that had received these farm products.

The following shows a detail of the items referred to:

<u>Item</u>	<u>Sold to</u>	<u>Units</u>	<u>Value</u>
Timothy Hay	State Infirmary	121.25 tons	\$2,425 00
Timothy Hay	Shirley	32.119 tons	642 38
Beans, string	Shirley	1,020 lbs.	30 60
Beans, shell	Shirley	5,900 lbs.	177 00
Beets	Shirley	900 lbs.	18 00
Cabbage	Soldiers' Home	3,450 lbs.	69 00
Squash, winter	Shirley	1,560 lbs.	31 20
Zucchini	Shirley	123 lbs.	1 23
Potatoes	Shirley	16,430 lbs.	328 60
			<u>\$3,723 01</u>

When the total transfers of \$4,392.81 is compared to the value of the farm produce

sent to the institution storeroom of \$2,602.77, it is evident that other institutions get the benefit of the farm operation of this institution.

It was also noted that the 1949 farm report did not show any loss due to shrinkage and spoilage.

1950 Farm Record: In general, the comments indicated previously with respect to the 1949 farm report also apply to the 1950 farm report.

It was also noted, however, that the individual project and crop sheets were not completed in the 1950 farm report. These sheets were not completed because all employees attached to the farm of the institution were paid on the pay roll of the Lyman School for Boys at Westborough for the period from July 1, 1950 to December 31, 1950. Actually they continued to work at the Industrial School for Girls until November 1950, at which time they reported for duty at the Lyman School for Boys. These employees are still being paid by the Lyman School for Boys even though they returned to work the farm at the Industrial School for Girls on April 23, 1951 for the 1951 farm season.

Attention is called to the farm sales for this year which totaled \$10,272.27 (book value) as compared with farm products sent to the institution storeroom totaling \$1,864.83. The only record of cash receipts for the produce valued at \$10,272.27 was a payment of \$1.00 by the State Farm at Bridgewater for produce with a book value of \$112.40.

Farm Accounts - General: On date of audit, May 9, 1951, there were certain accounts in the farm ledger including cabbage, onions, etc., which showed individual balances of thousands of pounds although there were no actual balances in the institution storeroom.

The fact that no spoilage or shrinkage was reported for the 1949 farm year and very little in the 1950 farm year, may be a reason for these accounts showing balances.

It is strongly urged that the Comptroller's Bureau be requested to furnish assistance so that the farm activities and the records may be properly co-ordinated.

No daily farm reports were prepared from November 1, 1950 to April 30, 1951 since the farm employees worked at the Lyman School for Boys during that period, therefore, it has been necessary to obtain the record of issues from farm storage from the bookkeeper's requisition, when ordinarily one record would be checked against the other to insure accuracy.

Apparently sufficient accurate information has not been furnished to the bookkeeping office in order to prepare accurate, up-to-date farm accounts and reports.

It is, therefore, suggested that the records be adjusted to the actual physical inventories.

Per Capita Cost 1950 Fiscal Year: Attention is called to high net weekly per capita cost as shown in Schedule IV of this report. The amount of \$83.90 was apparently of some concern to the Superintendent of this institution as it was referred to as follows in her annual report, June 30, 1950.

"For the second consecutive year, the School has had a small population, now averaging about one-third of its capacity. There is continuing awareness that the present per capita cost is insupportable, and every consideration is being given to cost reduction. Unused buildings may be available for use by other State Departments, and farm land in excess of our need may be transferred or sold."

It is anticipated that the per capita cost of the 1951 fiscal year will be substantially reduced because several employees were transferred to the Lyman School for Boys, Youth Service Board, and the Detention Center on July 1, 1950. In addition, many positions were discontinued as of that date.

The fact that in the current year the farm employees are being paid by the Lyman School for Boys while continuing the farm activity at the Industrial School for Girls will of course, give the Industrial School for Girls the benefit of the produce thus raised.

It is also expected that the sale of the Bolton property comprising unused land and buildings, which occurred just subsequent to the date of this audit will further reduce the 1951 costs of operating this institution.

Even though there has been a tendency towards a smaller inmate population in recent years, the expense cannot be cut in proportion as the expensive overhead for power plant, maintenance, hospital facilities, etc., must be constantly maintained.

STATE TEACHERS COLLEGE AT FRAMINGHAM

REPORT No. 51-113

Bookkeeping Records, Etc.: In this connection the report of the previous audit stated:

"The audit of this college's accounts was started on May 1, 1950. On the occasion of this visit, it was immediately obvious that the records necessary for making an audit were not posted or entered currently. This included the following:

Cash Book - Cash Disbursements - not recorded since June 30, 1949

Cash Receipts - many items recorded in pencil

General Ledger - not posted since June 30, 1949

Journal Entries - none made or entered since June 30, 1949

Closing Entries 1949 - Received by the school but not yet posted in the general ledger

Board Ledger - none maintained

Financial Reports - none submitted for Fiscal 1950

"It was learned that the college had made a change of bookkeepers on June 1, 1949, but the appointee had not apparently been properly instructed in the manner of keeping the records. It is understood that the school authorities had requested that the Comptroller's Bureau send a representative for the purpose of instructing the necessary personnel - but no one was made available to the school for this purpose until May 1950, nearly one year later.

"It is therefore suggested that the Comptroller's Bureau give the college necessary assistance in bringing its records on a current basis so that the subsequent audit of this institution's accounts may be satisfactorily completed."

A visit was made to this college on May 14, 1951 for the purpose of making the regular annual examination of its accounts. At that time, it was found that the cash book was the only record which was currently entered. The accounts receivable records had not been currently maintained; no entries had been made in the general ledger since June 30, 1950; and no monthly financial report had been compiled since April 1949, with the exception of that for the month of June 1950.

The pay roll and petty cash records were in a most confused and chaotic condition.

In short, because of the foregoing and other shortcomings in the record keeping an audit of the accounts of this college could not be satisfactorily completed.

It was learned that a representative of the Comptroller's Bureau had visited the college some months previous, at which time the accounts were prepared for closing as of June 30, 1950.

The situation of the change in bookkeepers is still applicable and no regular bookkeeper is or has been employed since the visit of the Comptroller's representative.

It is understood that the former bookkeeper is presently employed in the business office of the Department of Education as a transferee from this college. It is most difficult to understand how the authorities of the Department of Education permitted this transfer to the immediate detriment of one of its own institutions.

It is, therefore, emphasized that the present situation, which has forced curtailment of two successive audits, should be immediately corrected by co-operation from the responsible officials within the Department of Education.

INDUSTRIAL ACCIDENT BOARD

REPORT No. 51-114

Insurance Deposit Fund: The balance in this fund account totaled \$8,226.83 on May 14, 1951. This fund represents the balances of funds received from defunct foreign insurance companies and sureties. It is understood that this balance will be distributed, in the near future, to creditors who hold claims against these companies.

Public Employees Compensated for Injuries: Attention is called to the fact that in 1948, \$132,500.00 was appropriated for this purpose; in 1949 the appropriation was \$175,000.00 and for 1950 \$260,000.00 was appropriated. It is understood that in the 1951 fiscal year more than \$300,000.00 will be paid. It is understood that the reasons for these increases are as follows:

- (a) - Higher medical and hospital charges because of the increased cost of these services.
- (b) - Higher amounts of compensation paid out because of changes in industrial compensation laws.

- (c) - Higher number of accidents due to greater number of State employees especially on Public Works Highway projects and Metropolitan District Commission construction.

In this connection it was further noted that this Department has requested the Commission on Administration and Finance to inaugurate a safety program in order that the number of accidents may be reduced.

NEW BEDFORD TEXTILE INSTITUTE

REPORT No. 51-115

State Accounts: As of March 31, 1950 the reconciliation of cash still indicated a shortage of \$11.70 which had been carried over from a former treasurer.

During the period under audit, however, this account was transferred from the Canteen Fund to the State Accounts in order to eliminate the shortage.

An approval for this transfer was recorded in the minutes of the meetings of the trustees.

Reconciliation of Inventory of Supplies - Office: Although the greatest part of the sales are handled by the Book and Supply Department occasionally sales of certain supplies are made from the business office of the institute.

An inventory of these supplies was taken as of the date of audit and indicated an overage of \$150.19 for the audit period or 18.66% on net sales of \$804.69. As this would appear to be an abnormal variance it is suggested that steps be taken to determine its cause.

Athletic Association Fund: It was noted in the previous audit report that this fund was not examined because the records were inadequate and not currently maintained.

As of the date of the current audit, a system of accounting had been installed and it was noted that the records are now on a current basis.

An examination of the accounts for the period from April 1, 1950 to May 14, 1951 showed a shortage of \$17.19.

New England Textile Foundation Grants: In the previous audit report the question was raised as to whether or not expenditures to cover expenses of out-of-state trips by the president of the institute were in accordance with the original intent of the grants from the New England Textile Foundation.

During the period under audit correspondence was received from the Executive Secretary of the New England Textile Foundation stating that the grants might be used for any purposes that the trustees approve.

It was noted that an approval was recorded in the minutes of the meetings of the trustees for this expenditure.

BOARD OF REGISTRATION IN CHIROPODY

REPORT No. 51-119

Registration of Certain Applicants: In this connection the previous report stated:

"It was noted that during the audit period thirty-five applicants passed the examination but were not registered because of the fact that they did not fulfill the requirements of Chapter 557 of the Acts of 1948, i.e., complete a four year course in Chiropractic in a school approved by the board."

It was noted that certificates were awarded to these applicants during the current audit period.

STATE EXAMINERS OF ELECTRICIANS

REPORT No. 51-120

Income: The previous audit report commented on the fact that income was being deposited monthly which was not in conformance with Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws. It was noted that this situation has been corrected during the current audit period.

Travel Advance: The previous audit report noted that the entire advance money was in the office of this board in currency and it was suggested that it be deposited in a commercial bank account. It was noted that this suggestion was complied with during the current audit period.

DEPARTMENT OF EDUCATION

GENERAL DEPARTMENT

REPORT No. 51-122

Accounts Receivable: It was noted in ageing the accounts receivable that the department is still carrying a large number of accounts which were incurred prior to 1949 on which no recent activity has been evident. It is again suggested that a list of these uncollected accounts be turned over to the Attorney General's office for disposition. It was noted that accounts totaling only \$27.18 were charged off with the approval of the Attorney General during the period under audit out of a total amount charged off of \$3,870.38. There were apparently no accounts in the hands of the Attorney General for collection on the date of audit.

Bad Checks: It is suggested that bad checks be recorded in the cash book instead of by journal entry.

Foreign Checks: It is suggested that the Division of University Extension deposit with the State Treasurer for collection all foreign checks before they are submitted on a transmittal letter to the business agent's office.

Refunds of Receipt Vouchers: It is suggested that all refunds of receipt vouchers be recorded in the accounts receivable control account as required by the Comptroller's Accounting Manual.

Receipt Books Missing: An inventory of the Division of University Extension receipt books was taken on the date of audit. An analysis of the used and unused receipt books showed two missing receipt books, numbered 6813 and 7460. Book Number 6813 had been issued to the organizer in the Springfield area, and Book Number 7460 to the organizer in the Waltham area. The Springfield organizer could find no record of the book in question, and the Waltham organizer contended that it had probably been lost in the mails.

Vending Machines, Rentals, etc.: This department has provided space for three vending machines and a quick lunch service. The vending machines and the lunch room are serviced by private business concerns for which no income accrues to the Commonwealth. What would ordinarily be the Commonwealth's share of the income is turned over to a so-called Building Fund, an organization established for the benefit of departmental employees and to which they also individually contribute twenty-five to fifty cents per month.

Suspense Column, Cash Book: A so-called "suspense account" is maintained on a memorandum basis in a column of the cash book to facilitate deposit of receipts within the time prescribed by law. This procedure, which was started on January 20, 1948, was the result of suggestions made in several audit reports. Although all money so received is now deposited within the time limit, there is still no adequate control over it. An analysis of this suspense column from January 20, 1948 to May 22, 1951 showed a balance of \$853.58 less refunds for the same period of \$171.41, or a net amount of \$682.17.

An attempt was made to reconcile this amount with a list of accounts, and in this respect only \$190.14 could be identified. Some of these accounts dated back to May 1948. The current audit period alone showed an excess of receipts over disbursements in the amount of \$216.67.

It was further noted that the University Extension income is classified for entry purposes as follows:

By Comptroller's Bureau

1301-202 University Extension Fees
1301-402 University Extension Sales
3527-402 University Extension Veterans Sales

By Department of Education

Class Fees
Correspondence Fees
Veterans Fees
Audio-Visual Sales
Overpayments
Suspense

Since there is no reference to a Suspense Account in the Comptroller's Accounts, unclassified receipts are arbitrarily classified into the three Comptroller's Accounts upon transfer to the State Treasurer. At a later date, when the correct classification has been determined, the department credits the proper accounts. The same funds in the Comptroller's records remain in this arbitrarily predetermined classification.

A solution to this confusion would be to maintain a Suspense Control Account and a Suspense Subsidiary Account. The balance of this account would represent the Unearned Income as it is an obligation of the Commonwealth until the money is refunded or the services which have been contracted for are rendered.

Board of Free Public Library Commissioners: In addition to the income from the Division of Public Libraries, revenue is also derived from the issuance of Certificates of Librarianship in conformance with Chapter 320 of the Acts of 1948. An inventory of these certificates on hand was taken. It was found that packages of 500 each were in the store-room and were unnumbered, and 673 numbered certificates were in the office of the division. It is suggested that all certificates should be prenumbered by the printer in the future.

Secretary of Board of Free Public Library Commissioners: Section 26 of Chapter 78 of the Tercentenary Edition of the General Laws, as inserted by Chapter 320 of the Acts of 1948, provides as follows:

"The secretary of the board shall account for all moneys received by the board for the certification of librarians and shall pay the same to the state treasurer. The secretary shall give to the state treasurer a bond in such sum and with such securities as may from time to time be required by the board for the faithful performance of his duties."

In this connection, it was noted that the secretary is not bonded. A senior clerk and stenographer who handles the funds is bonded, however.

It was noted that no fees have yet been established for Duplicate Certificates and Renewals of Certificates.

Radio - Audio - Visual - Aids: An analysis of the sales slips used during the current audit period indicated that sales slips which were issued during this period were for sales made in a future accounting period, therefore, much difficulty of accounting for the sales slip numbers in current audit period was encountered. The sales slips as now issued are merely memoranda of sales orders or future bookings and do not represent actual sales.

A record of accounts receivable is not maintained. A trial balance of accounts receivable should involve merely a listing of the account balances and not a detailed audit of each account. Information of accounts overdue should be readily available and the established procedure for collecting these items should be followed through, and uncollectible or long overdue receivables should be turned over to the Attorney General.

At present no distinction is made between cash received for sales in advance, cash received on account and cash sales.

The recording of accounts receivable is clearly defined in the Comptroller's "Accounting Manual."

INDUSTRIAL SCHOOL FOR BOYS

REPORT No. 51-124

State Accounts - Deposit of Moneys: It has been the practice to deposit and transfer to the State Treasurer money received on account of income only at the end of each month. Attention is therefore called to Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws which provides as follows:

"Except as otherwise provided, all fees or other money received on account of the Commonwealth shall be paid daily into the treasury thereof, but if in the opinion of Commission on Administration and Finance and the State Treasurer the interests of the State require, payments may be made weekly in accordance with such rules and regulations as the State Treasurer may prescribe."

It is suggested that the provisions of the aforementioned statute be complied with forthwith.

Inmates' Fund - Payment to Reimburse Commonwealth for Pay Roll Overpayment: Attention is called to a payment of \$15.17 from the Inmates' Fund to reimburse the State for an overpayment to a former employee who worked at this institution in 1949. Steps should be immediately taken to reimburse this fund.

Inmates' Fund - Undeposited Checks: Included in the cash on hand were several checks which had been in the office more than two months. It is advised that any checks received should be deposited more promptly.

Disposition of Defense Stamp Fund: There was a balance in this fund of \$8.45 made up of several small accounts. This Fund has been inactive for some time and showed no activity during the audit period. It is suggested that this balance be transferred to the Inmates' Fund.

BOARD OF REGISTRATION OF CERTIFIED PUBLIC ACCOUNTANTS REPORT No. 51-125

Departmental Records: Practically all financial records of this board originate in the private office of the Secretary of the Board. The cash book and cash receipts are handled by the personal employee of the Secretary. It was noted that the Secretary of this Board is not bonded nor are any of those individuals who handle the receipts of this agency.

Increase in Expenses and Receipts: It will be noted from Schedule III of this report that the expenses of the Board increased from \$7,245.22 in the fiscal year 1949 to \$15,916.94 in the fiscal year 1950. The extra costs can be attributed entirely to a large increase in the number taking the examinations for Certified Public Accountants, which required the hiring of both Horticultural and Symphony Halls and added substantially to the cost of marking papers.

The receipts for the fiscal year 1949 were \$11,808.00 and were increased to \$19,679.00 in the 1950 fiscal year.

METROPOLITAN STATE HOSPITAL

REPORT No. 51-126

Food Overdrafts: In this connection the previous audit report stated:

"There are four items of food overdrafts dated back to 1948 and totaling \$587.40 which are still outstanding. These represent the following:

B. R.	\$296 98
C. B.	38 89
M. A.	143 46
S. W.	108 07
	<u>\$587 40</u>

"It is suggested that a serious effort be made to effect collection of these items. If this is unsuccessful, the Attorney General should be informed of them for necessary action."

In connection with the foregoing it was noted that the amount owing by B. R. and C. B. are still uncollected. It is, therefore, suggested that they be forthwith turned over to the Attorney General for disposition.

Comptroller's Statements: It is recommended that binders be provided for these statements, so that they may be permanently filed. A great deal of difficulty was experienced in connection with locating them for use in this audit because they were not all in one place.

Maintenance Charges: A review of these items indicated three items of undercharges and one item of an overcharge. These accounts should be immediately adjusted.

Farm Accounts: It was again noted that the farm report for the previous calendar year was not available for examination in connection with this audit, as it had not been completely compiled. This same condition prevailed at the time of the previous examination.

The 1949 farm report was examined. It was noted that it failed to agree with comparable ledger control accounts as follows:

	Annual Report	Control Account
Farm Products to Storeroom	\$19,727 20	\$19,760 44
Farm Production	20,065 91	20,557 10
Farm Products Used	21,170 31	21,203 55

The 1949 egg production averaged 232.4 eggs per hen per year and were produced at a cost of \$.371 per dozen. The death rate in hens and chickens of 10% is abnormal, but it was explained that during the year there were two epidemics in the flock, one of Newcastle and one of a respiratory nature.

It was also noted the production of one year is occasionally not credited on the farm

ledger until the following year.

Patients' Funds: Considerable difficulty was encountered in proving the trial balance of the patients' account cards to the cash book balance. Four days were necessary to accomplish this, because of the many errors in postings and the fact that the trial balance for the previous month had not been completed.

Included in this fund is the sum of \$803.24 belonging to 287 discharged patients. The reason advanced for this unusually large number was the discharging of patients on week-ends when the treasurer's office is closed. This matter was discussed with the Superintendent who has arranged to have a metal container in which the treasurer can deposit a patients' property prior to his or her discharge. This container will be left in the Superintendent's office where it will be available when the patient leaves. It is understood that notices will be mailed to the foregoing discharged patients informing them that their property will be sent them on request.

Canteen: A difference of \$368.54 for the period of audit was noted between the book inventory and physical inventory. This shortage is 2.51% in relation to sales.

A test of selling prices as appearing on the bills of three firms showed 23 errors which would increase the total selling price by \$38.66.

It is recommended that more care be exercised in the pricing and extension of bills.

MARITIME ACADEMY

REPORT No. 51-128

Bookkeeping - State: Attention is called to the fact that the accounts are now being properly kept. The standard State records are now installed and are maintained currently.

Uncollected Service Fees: All overdue service fees have been collected. Overdue service fees of \$77.99 reported in the previous audit report have also been collected.

Accounts Receivable: It was noted that all charges for Accounts Receivable are now being made to the Accounts Receivable account in the manner prescribed in the Comptroller's Bureau Accounting Manual.

Clothing Inventory: An inventory of the clothing indicated an overage of \$381.05 which was equivalent to 1.70% of the sales of \$22,348.55. These sales included obsolete merchandise which was valued at regular selling price for purpose of inventory computation.

Midshipmen's Clothing Accounts: An analysis of the Midshipmen's Clothing Accounts as of June 4, 1951 indicated a greatly improved condition over that noted at the time of the previous audit. A difference of \$1.00 was noted between the subsidiary and the control accounts.

Students' Advance Deposits: In connection with the examination of the Students' Advance Deposit Fund it was found to be quite difficult to reconcile subsidiary accounts with control account. An unexplained difference of \$53.26 was noted in the reconciliation of these two accounts. It is suggested that the Academy personnel take steps to locate this variance and its cause.

Forfeited Graduation Deposits: All forfeited graduation deposits have now been transferred to the State Treasurer. It was noted that \$750.00 of forfeited deposits which were on hand on the date of the previous audit were transferred to the State Treasurer as suggested in the report of that audit.

Fees Paid by Midshipmen: Fees in effect during the period under audit were as follows:

Insurance Fee - \$3.60 per year - payable at one time. To pay for the cost of \$1,000.00 liability policy required of all Midshipmen by the U. S. Maritime Commission. (Premiums are remitted to this Commission.)

Welfare and Social Fee - \$15.00 per year - payable at one time. To defray expenses associated with recreational activities.

Clothing (Special) Fee - \$100.00 per year - payable \$8.33 a month. To meet requirements for replacements of clothing and equipment for the ensuing year and

to assure that the Midshipmen have a sufficient balance to meet requirements and indebtedness. Senior class is exempt.

Service (Special) Fee - \$100.00 per year - payable \$8.34 a month. To meet the Service Fee requirements for the ensuing year. Senior class is exempt.

It was understood that the Board of Commissioners are now contemplating further changes in these fees which will be effective with the class enrolling in September 1951.

John J. Egan Memorial Fund: This memorial fund was set up by Mr. J. J. Egan, Sr. to memorialize his son's service and loss of life while on a cruise as a Midshipman.

The money is to be used annually to inscribe the name of outstanding Midshipmen on a large trophy cup which was presented to the Academy by Mr. J. J. Egan, Sr. at that time. On the date of audit there was a balance of \$255.00 in this fund.

Captain Emery Rice Memorial Fund: This memorial fund was set up to memorialize Captain Rice through a gift from his sister.

The money entrusted is to be used to acquire mementos, relics, and war souvenirs of both World Wars and to exhibit and care for the War medals, books, and pictures of Captain Rice, which were presented to the Academy by his sister. On the date of audit there was a balance of \$470.00 in this fund.

Secretary's Office: It was noted that the Secretary's office in Boston is now handling only the financial records of the Board of Commissioners.

DIVISION OF INSURANCE

REPORT No. 51-130

Prepaid License Fees: In checking the income from "Company Licenses" fees it was noted that the amount of \$298.00 had been received by the Division between February 23, 1951 and June 5, 1951 for which licenses will not be issued until after July 1, 1951. This amount is not in the Suspense Account or in any other account. It is suggested that in the future, cash received in advance of license issue be placed in the Suspense Account for control purposes.

SCHOOL OF ART

REPORT No. 51-131

ART SCHOOL ASSOCIATES INC.

Change Fund: It is again recommended that a Change Fund of a specified amount be created and that a corresponding account be set up in the general ledger.

Bank Deposits: It was noted that cash received from daily transactions were not deposited in amounts representing actual specific daily or weekly receipts. Such deposits made represented excess cash on hand over the amount needed for change. It is therefore again recommended that the cash receipts be deposited in an amount equal to the cash received from sales, etc.

ALCOHOLIC BEVERAGES CONTROL COMMISSION

REPORT No. 51-132

Inventory of Seized or Purchased Liquor: Previous audit reports have stated that seized or purchased liquor was not posted to the inventory control record until it was destroyed. In this connection it was noted that postings are now being made to the inventory record from day to day as liquor was seized or purchased in conformance with this suggestion.

BOARD OF REGISTRATION IN VETERINARY MEDICINE

REPORT No. 51-133

Pending Applications: It was again noted that there was one pending application filed in June 1940 still awaiting examination. The fee of \$15.00 had been paid and deposited with the State Treasurer. It is suggested that steps be taken to dispose of this item.

BOARD OF EXAMINATION OF DENTAL EXAMINERS

REPORT No. 51-134

Annual Registration: Chapter 112, Section 44 of the General Laws states that:

"Every registered dentist, when he begins practice, shall notify the Board

of his address and shall pay a fee of two dollars before April 1st of each year."

The previous audit report noted that approximately 10% of the previous year's registrations had not been renewed, and recommended that the Board, by correspondence or otherwise, follow up some methodical basis all those instances of registrations in the previous license year that did not register in the current year.

It was noted on this audit date that again approximately 10% of the previous year's registrations had not been renewed. Attention is therefore directed to the recommendation outlined in the previous audit report.

Bonds: It was again noted that the secretary of the Board is not bonded. The senior clerk, who actually handles the office cash, is now bonded by a blanket bond issued to the Division of Registration.

BOARD OF REGISTRATION IN EMBALMING AND FUNERAL DIRECTING

REPORT No. 51-135

Examination Fees: It was recommended in the previous audit report that a duplicate copy of a serially numbered receipt form be given to each person paying an examination fee. At present, receipts are given only to persons paying the examination fee in currency in the office. It is again recommended that a receipt be given to each person paying an examination fee.

Fidelity Bond: It was noted that the secretary of the board has not been bonded since October 1950. It is recommended that the secretary be bonded.

AERONAUTICS COMMISSION

REPORT No. 51-137

Reimbursements to Cities and Towns for Airport Construction Projects: During the current audit period funds were expended from special appropriations for construction work at various municipal airports within the Commonwealth. The Federal government, the Commonwealth and the various municipalities concerned, participated in the program for airport construction projects in the approximate ratio of 50%, 25% and 25% respectively.

All contracts awarded under this program are approved by the Massachusetts Public Buildings Commission and the Massachusetts Aeronautics Commission. The progress of the work is checked by engineers of the latter agency.

Invoices are presented to the Massachusetts Aeronautics Commission by the municipalities for reimbursement.

Checks are sent by the Federal Government payable to the Massachusetts Aeronautics Commission as agent for the municipalities concerned.

The Commission deposits these checks in its own bank account and almost immediately draws checks on this account payable to the several municipal airports where work is being performed under the program.

Apparently the amounts awarded by the Federal Government under this program are not controlled by the Commonwealth.

The following schedule indicates the amounts of Federal and State Aid to Cities and Towns for airports from June 20, 1950 to June 6, 1951:

<u>City or Town</u>	<u>State Aid</u>	<u>Federal Aid</u>	<u>Total</u>
Worcester	\$123,446 10	\$296,187 41	\$419,633 51
North Adams	20,521 90	14,468 63	34,990 53
Fall River	33,185 09	62,401 98	95,587 07
Lawrence	1,130 25	4,721 00	5,851 25
Chatham	24,260 18	30,868 98	55,129 16
Nantucket	4,933 55	9,867 09	14,800 64
Gardner	4,217 73	12,009 98	16,227 71
Pittsfield	32,858 20	31,581 70	64,439 90
Martha's Vineyard	13,916 18	15,350 61	29,266 79
New Bedford	20,185 32	75,034 04	95,219 36
Fitchburg	9,163 64	19,929 99	29,093 63
Provincetown	34,635 02	67,408 31	102,043 33
Town of Norwood	-	8,930 00	8,930 00
	<u>\$322,453 16</u>	<u>\$648,759 72</u>	<u>\$971,212 88</u>

Bonding of Employees: It was noted that the checks for both State and Federal Airport Projects Accounts must be signed by two of the following employees:

The Director of the Commission
The Senior Accountant
Senior Clerk

As the senior accountant was the only one of the three bonded, it is recommended that all personnel authorized to sign checks be bonded.

STATE HOUSING BOARD AND LOCAL HOUSING AUTHORITIES

Audit of Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

"SECTION 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:-

(d) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

"SECTION 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947, is hereby repealed."

This Act became effective on November 15, 1949 and from that date to June 30, 1950, fifty-eight local Authorities were audited and reports issued.

During the complete fiscal year ending June 30, 1951 the terms of the Act were fully complied with and every active local Authority, in a total of 88, was audited and a report issued.

In addition, fifteen other local Authorities were visited and were found to be inactive during the fiscal year and therefore required no audit.

Legislative Recommendation: As of July 1, 1951, fifty-four local housing projects had been placed under permanent financing with bond issues guaranteed by the State in a total of \$40,705.00. The most recent issue of these bonds dated July 1, 1951 carried an interest rate of $2\frac{1}{8}\%$. While these bonds have been issued in the names of the various local Housing Authorities, they are nevertheless guaranteed both as to interest and principal by the Commonwealth of Massachusetts, and as such, represent a contingent liability. Almost simultaneously with the issuance of these bonds, the State Treasurer in borrowing money for the Commonwealth of Massachusetts, borrowed money at interest rates that average $1\frac{1}{2}\%$ lower than the housing bonds. This apparently comes about as a result of the superior credit of the Commonwealth. In view of the fact that it will probably be necessary to issue at least another \$150,000,000 in housing bonds, it is suggested that existing statutes be amended to provide that future borrowings be made directly by the Commonwealth, and the Commonwealth in turn loan the money to the local Housing Authorities at the same interest paid by the Commonwealth. Adoption of this suggestion could result in savings up to \$700,000 annually in interest rates, resulting in tremendous savings over the lives of the respective bond issues.

General: Individual copies of audit reports for the State Housing Board and all local Housing Authorities have been submitted to his Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Chairman of the State Housing Board, and the Senators, Representatives and all interested city officials and members of local Housing Authorities.

Summary of Audits Completed: The following listed audits have been made since my last report to the legislature:

SCHEDULE OF HOUSING AUTHORITY AUDITS COMPLETED -- FISCAL YEAR 1950-1951

	From	To	Report No.
LOCAL HOUSING AUTHORITIES:			
Agawam	Jan. 1, 1950	June 30, 1950	51-H-2
Amesbury	Sept. 1, 1949	June 30, 1950	51-H-8
Andover	Apr. 1, 1949	June 30, 1950	51-H-3
Arlington	Mar. 1, 1950	Jan. 31, 1951	51-H-52
Athol	June 1, 1950	Mar. 31, 1951	51-H-64
Attleboro	June 1, 1949	June 30, 1950	51-H-6
Barnstable	May 1, 1950	May 31, 1951	51-H-87
Bedford	Sept. 6, 1949	July 31, 1950	51-H-15
Belmont	June 1, 1950	Mar. 31, 1951	51-H-71
Beverly	May 24, 1949	June 30, 1950	51-H-5
Boston	Mar. 1, 1950	Dec. 31, 1950	51-H-45
Braintree	Mar. 1, 1950	July 31, 1950	51-H-23
Brockton	Jan. 1, 1949	Oct. 31, 1950	51-H-42
Brookline	May 1, 1950	Mar. 31, 1951	51-H-63
Cambridge	Feb. 1, 1950	Oct. 31, 1950	51-H-41
Canton	Mar. 11, 1949	Aug. 31, 1950	51-H-26
Chelsea	Jan. 1, 1950	Aug. 31, 1950	51-H-31
Chicopee	May 1, 1950	Apr. 30, 1951	51-H-81
Clinton	Sept. 26, 1949	June 30, 1950	51-H-10
Dalton	June 1, 1950	Apr. 30, 1951	51-H-80
Dedham	Mar. 1, 1950	Sept. 30, 1950	51-H-36
Easthampton	June 1, 1950	May 31, 1951	51-H-88
Everett	Mar. 1, 1950	Nov. 30, 1950	51-H-44
Fall River	Mar. 1, 1950	Dec. 31, 1950	51-H-48
Falmouth	June 1, 1950	May 31, 1951	51-H-86
Fitchburg	Dec. 20, 1948	June 30, 1950	51-H-1
Framingham	Mar. 1, 1950	Dec. 31, 1950	51-H-46
Franklin	June 1, 1950	Apr. 30, 1951	51-H-85
Gardner	June 1, 1950	Apr. 30, 1951	51-H-76
Gloucester	Feb. 1, 1950	Oct. 31, 1950	51-H-40
Grafton	May 19, 1949	June 30, 1950	51-H-9
Greenfield	May 1, 1950	Mar. 31, 1951	51-H-74
Haverhill	July 7, 1948	July 31, 1950	51-H-13
Holyoke	Apr. 1, 1950	Apr. 30, 1951	51-H-84
Hull	Oct. 4, 1949	Aug. 31, 1950	51-H-28
Ipswich	June 1, 1949	Sept. 30, 1950	51-H-38
Lawrence	Mar. 1, 1950	Dec. 31, 1950	51-H-47
Leominster	June 1, 1950	Feb. 28, 1951	51-H-56
Lowell	June 1, 1950	Apr. 30, 1951	51-H-77
Lynn	May 1, 1950	Mar. 31, 1951	51-H-72
Malden	Apr. 1, 1950	Feb. 28, 1951	51-H-58
Mansfield	Oct. 11, 1950	Apr. 30, 1951	51-H-83
Marblehead	May 1, 1950	Mar. 31, 1951	51-H-69
Mattapoisett	May 1, 1950	Jan. 31, 1951	51-H-55
Medford	May 1, 1950	Mar. 31, 1951	51-H-68
Methuen	Jan. 1, 1949	Sept. 30, 1950	51-H-37
Middleborough	Jan. 1, 1950	Sept. 30, 1950	51-H-35
Milford	Feb. 1, 1950	July 31, 1950	51-H-12
Millbury	May 1, 1950	Mar. 31, 1951	51-H-67
Montague	Mar. 1, 1950	Dec. 31, 1950	51-H-49
Nahant	June 1, 1950	Mar. 31, 1951	51-H-70
Nantucket	Feb. 3, 1950	July 31, 1950	51-H-22
Natick	Nov. 1, 1949	Aug. 31, 1950	51-H-18
Needham	Dec. 12, 1948	Aug. 31, 1950	51-H-30
New Bedford	Apr. 1, 1950	Mar. 31, 1951	51-H-73

LOCAL HOUSING AUTHORITIES	From	To	Report No.
(Continued):			
Newburyport	Oct. 13, 1949	Feb. 28, 1951	51-H-57
North Adams	May 1, 1950	Mar. 31, 1951	51-H-65
Northampton	Mar. 1, 1950	Feb. 28, 1951	51-H-59
North Andover	Aug. 22, 1949	Oct. 31, 1950	51-H-39
North Attleborough	May 1, 1950	Apr. 30, 1951	51-H-79
Northbridge	May 1, 1950	Jan. 31, 1951	51-H-54
Norwood	July 12, 1949	Aug. 31, 1950	51-H-29
Peabody	Sept. 8, 1949	July 31, 1950	51-H-14
Pittsfield	Apr. 1, 1950	Mar. 31, 1951	51-H-66
Plymouth	June 1, 1950	Apr. 30, 1951	51-H-78
Quincy	Dec. 1, 1947	June 30, 1950	51-H-4
Revere	May 3, 1946	June 30, 1950	51-H-7
Rockport	June 10, 1949	Sept. 30, 1950	51-H-33
Salem	Nov. 16, 1949	Sept. 30, 1950	51-H-34
Somerville	Apr. 1, 1950	Dec. 31, 1950	51-H-50
Springfield	Feb. 1, 1950	June 30, 1950	51-H-11
Stoneham	Aug. 15, 1949	July 31, 1950	51-H-16
Stoughton	Apr. 1, 1950	Aug. 31, 1950	51-H-27
Swampscott	June 7, 1949	July 31, 1950	51-H-19
Taunton	Feb. 1, 1950	Nov. 30, 1950	51-H-43
Uxbridge	Apr. 1, 1950	Jan. 31, 1951	51-H-53
Walpole	May 5, 1949	Aug. 16, 1950	51-H-17
Waltham	Apr. 1, 1950	Feb. 28, 1951	51-H-60
Watertown	Apr. 1, 1950	Feb. 28, 1951	51-H-62
Webster	May 1, 1950	Mar. 31, 1951	51-H-75
Wellesley	May 1, 1949	July 31, 1950	51-H-20
Westborough	May 1, 1950	Feb. 28, 1951	51-H-61
Westfield	May 1, 1950	Apr. 30, 1951	51-H-82
West Springfield	Mar. 1, 1950	July 31, 1950	51-H-21
Weymouth	Sept. 12, 1949	Aug. 31, 1950	51-H-25
Winthrop	May 27, 1949	July 31, 1950	51-H-24
Woburn	Mar. 1, 1950	Jan. 31, 1951	51-H-51
Worcester	Feb. 1, 1950	Sept. 30, 1950	51-H-32

The following comments, exceptions and recommendations were included in the reports issued in connection with these examinations.

AGAWAM HOUSING AUTHORITY

REPORT No. 51-H-2

Rents: The rents computed were not rounded off to the nearest half dollar as is required by Section 3B of the management resolutions, adopted August 11, 1949, by the Agawam Housing Authority.

Custodian: The custodian of the project is not charged for utilities and heat in the apartment which he occupies. It is recommended that the Authority pay the custodian a gross salary and that his rent be computed in the same fashion as the other tenants of the project.

Development Cost: Because there was a surplus in the Management Fund, a transfer was made to the Development Fund, in the amount of \$7,067.73. This transaction had the effect of reducing the total development cost to date.

ANDOVER HOUSING AUTHORITY

REPORT No. 51-H-3

General - Books of Account of Authority Kept by Private Accountant: This examination was started on July 6, 1950. At that time it was noted that the cash books and ledgers had not been posted since April 30, 1950. The books of this Authority are posted and financial statements are prepared by a private accountant and a member of the Andover Housing Authority. After counting the cash and securing bank statements on the various accounts on date of this audit, it was necessary to suspend work until the books were brought up to date by a member of the Authority. This work was performed and the records brought up to date of audit on July 10, 1950. These accounts should be posted currently and it is recommended that this work be performed by a regular employee of the Authority.

General Contractor: On December 22, 1949, the Andover Housing Authority agreed to the assignment by Benoit Construction Company, Inc. of the proceeds of its contract with Andover Housing Authority for the construction of Project 200-1 dated August 23, 1949 to the United States Trust Company.

The prepaid utility charge which appears on the books of the Authority will be paid by the Benoit Construction Company, Inc. before the final settlement is made.

BEVERLY HOUSING AUTHORITY

REPORT No. 51-H-5

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the Housing Authority shall make an annual report in the month of January to certain State and municipal officials. No report had been made to date of audit by this Authority. It is recommended that the necessary steps be taken to prepare this report as soon as possible.

Chapter 372 - Project V-19102 - Rent Due: It was noted that on the date of audit a total of \$1,623.00 was due to the Beverly Housing Authority from present and former tenants.

It was determined that necessary steps were being taken to make collections on these accounts included with the foregoing which are in a delinquent status.

Chapter 372 - Project V-19102 - Rent Receipts: It was noted in taking the inventory of used rent receipts that many tenants had not received rent receipts. It is suggested that all tenants be given a receipt immediately upon payment of their rent.

Insurance - Project V-19102: It was noted that no fire insurance had been placed on the 36 Quonset Huts. It is recommended that insurance coverage be immediately put in effect in these dwellings.

Appropriation Fund Project V-19102: It was noted that the Beverly Housing Authority had a check book and paid invoices for this fund. No information of this account appears on the several records. The greater part of the vouchers were not approved by the Housing Authority Members. It is recommended that these vouchers be properly approved. It is further suggested that the necessary accounts be given in the books of the Authority.

ATTLEBOROUGH HOUSING AUTHORITY

REPORT No. 51-H-6

General - Minutes of Housing Authority: It was noted that it was impossible in many instances to verify the action taken by the local housing authority at its meetings because

only incomplete and inadequate records of these meetings were maintained.

It is recommended that formal, complete records of all the meetings of the members of the Authority be maintained.

Chapter 200-1 - Architect's Fee: It was noted that as of the date of audit the architect's fee based upon the actual construction award had not been submitted to the State Housing Board for approval.

REVERE HOUSING AUTHORITY

REPORT No. 51-H-7

General - Disbursements on Account of Title III Federal Program: In this connection it was noted that on March 9, 1950 a disbursement was made in the amount of \$2,400.00 from the Chapter 372 Project. This was for a special tabulation by the Bureau of Census, for information pertinent to the Title III program. Inasmuch as there are now funds available in the Title III account, it is recommended that the Administration Fund be reimbursed for this expenditure.

Chapter 372 - Tenants' Accounts Receivable: In this connection it was noted that on date of audit the balance per the trial balance of the accounts receivable was \$108.40 less than the balance of the control account in the general ledger. This was due to the fact that, under the current procedure, where a tenant vacated a unit the ledger sheet is removed whether or not there is an outstanding balance. The ledger sheet is then filed in the former tenants' folder and if payment is not received, the folder is forwarded to the Authority's attorney for his action. It was necessary to contact this attorney to obtain the ledger sheets that brought the subsidiary records into agreement with the control account.

It was noted while aging the outstanding accounts that \$566.00 of this balance represented an amount owed by a tenant who has not made a payment of rent since September 2, 1947. Attention in this connection is directed to Resolution 92-47 which reads as follows:

"Be It Resolved By The Revere Housing Authority That:

The Executive Director be instructed to write a letter to any tenant failing to pay their rent by the 5th of the following month.

Also that the Executive Director be instructed to write to any tenant who is two months in arrears by the 5th of the month - giving them notice to vacate their unit for non-payment of rent - within 14 days time."

This foregoing resolution was passed by the Authority at a meeting on June 26, 1947. It is understood that action is now being taken to secure a judgement against this tenant.

It was also noted that the outstanding accounts on date of audit indicated a balance of \$64.40 owed by a former tenant which is now in the hands of an attorney for collection.

Chapter 372 - No Approval for Expenditures as Required From State Housing Board: Section 7 of Chapter 372 reads as follows: "No expenditures shall be made by any city or town, or a housing authority, board or officer acting as agent for such city or town. In carrying out the provisions of Section 4 or Section 6, of more than \$1,000.00 in any year without the approval of the State Housing Board."

In order to eliminate the necessity of processing individual requests for expenditures exceeding \$1,000.00, the State Housing Board approves budgets for the operation of the projects.

In spite of the fact that this project has been operating under Section 4 of Chapter 372 since February 1, 1950, no approvals have been requested from the State Housing Board for the various expenditures. It is therefore recommended that this matter be discussed with the State Housing Board and the necessary approvals be obtained.

Chapter 372 - Deposit of Rent Receipts: In this connection it was noted that in many instances cash collections of rent receipts were allowed to accumulate for several days, before being deposited. These amounts ranged from approximately \$100.00 to \$630.00. In several instances these amounts were left in the office of the Authority over the weekend. It is therefore recommended that all cash receipts be deposited at least once each day.

Chapter 372 - Tenants' Security Deposits: In this connection, it was noted that the balance per the listings of the individual accounts was \$10.00 more than the balance of the

control account. This was due to the fact that security deposits were shown as having been received from two tenants who had not actually paid them, while a deposit was not shown for a tenant who had made it. It was understood that a trial balance is not taken of these deposits monthly. It is recommended that a trial balance be taken of these security deposits monthly and adjusted when found necessary.

Chapter 372 - Sale of Ice Boxes and Stoves: In this connection, it was noted that when a sale is made of an ice box or stove a receipt is given to the purchaser which is numbered by an employee of the Authority. It is recommended that a sales book with prenumbered sales slips be purchased for the purpose of recording these sales.

Chapter 372 - Bank Checks Purchased from Petty Cash Fund: It was noted on date of audit that there were instances in which money in this fund was used to purchase bank checks for payment of sundry items. Inasmuch as the Authority has a checking account it is suggested that any purchases or subscriptions that are to be paid by check be paid with checks from the checking account.

Chapter 372 - No Records Available of Rent Receipts Purchased: It was noted that rent receipts are purchased from a local stationer's store. As this arrangement precludes the possibility of positively identifying all rent receipts, it is suggested that in the future, rent receipts be specifically printed for the use of this Authority and that arrangements be made to have these receipts prenumbered by the printer.

Chapter 200 - Development Cost Charged With Pay Roll Applicable to Chapter 372 Project: In this connection it was noted that an employee who was engaged on February 1, 1950 is being paid entirely by the "Development Cost Account, Preoccupancy." It was noted, however, that this employee was hired to supervise the project now operating under Chapter 372 as well as assist in the investigation of prospective tenants under the Chapter 200 Project. It is therefore suggested that his salary be prorated between the two projects involved.

Chapter 200 - Authorization of Employee: In this connection it was noted that disbursements were made for the salary of an employee in December 1949, even though no approval could be found for this employment in the minutes of the Authority's meetings.

Chapter 200 - Approved Change Orders Not Posted to Control Account - Contract Awards: It was noted that the balance of the contract awards' account per the books was \$789,180.00. An analysis of this account showed however, that the actual balance was \$789,873.00 a difference of \$693.00. This amount represented an approved change order which had not been posted. It is recommended that this amount be posted to the account in order to record the actual liability of the Authority.

Chapter 200 - Additional Authorization of Temporary Notes Not Posted to Control Account: In this connection it was noted that the balance of the account Notes Authorized, Temporary per the books was \$1,381,000.00. An examination of the Contract for Financial Assistance showed that the actual temporary notes authorized was \$2,391,000.00. It is recommended that this account be adjusted to show the actual temporary notes authorized.

AMESBURY HOUSING AUTHORITY

REPORT No. 51-H-8

General - Books of Account of Authority Kept by Private Accountant: This examination was initiated on July 17, 1950. At that time it was noted that the cash books and ledgers pertaining to the project had not been posted since May 31, 1950. The books of this Authority are posted and financial statements prepared by a private accountant who visits the office periodically.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. No report of this nature had been prepared, as yet, in accordance with this statute. This matter was discussed with the Executive Director of the Authority, and it was understood that he will take immediate steps to prepare the necessary report.

Account Payable Vouchers: It was noted that account payable vouchers numbers 173 to 175 were missing and could not be located for audit purposes. These records are very important and should not be misplaced.

Minute Book: The minutes of the Authority's meetings from the organization date of July 26, 1948 to September 9, 1949 could not be located. The Executive Director indicated that steps will be taken to enter them in the minute book.

CLINTON HOUSING AUTHORITY

REPORT No. 51-H-10

Rent Receipt Books: Rent receipts being used are not numbered by the printer, hence, have no value for auditing purposes. No inventory of these receipts was taken.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. No report had been made to date of audit by this Authority. This matter was discussed with the Executive Director, and it was understood that he will take immediate steps to prepare the necessary report.

Administration Books: As of the date of audit no administration books had been opened due to the fact that the Administration Fund Agreement was not signed until June 23, 1950. All rents collected during the month of June were deposited in the Clinton Trust Company under the Development Fund Agreement. The rents collected and the Security Deposits were all entered in the "Rents" account. It is understood that the proper account will be opened in the near future.

PEABODY HOUSING AUTHORITY

REPORT No. 51-H-14

Minutes of the Meetings: The minutes of the Authority's meetings held from the date of organization, November 22, 1948 until May 2, 1949 could not be located for audit purposes. The importance of this record cannot be stressed too strongly and it is suggested that an effort be made to locate them.

Contracts: Approved copies of the architect's contract, survey contract, title examination contract and appraisal contract could not be located for purposes of this examination. Correspondence from the State Housing Board to the effect that approved copies of the foregoing had been returned was noted. It is suggested that duplicate copies be obtained so that the Authority's files may be complete in this respect.

Change Orders: The records of the Authority showed a total adjustment of \$9,260.18 in the contract award account for change orders to July 31, 1950. The only copies of approved change orders available in the office of the Authority were those appended to this report and totaling \$2,366.32 listed in Schedule IV. An adjustment of \$6,893.86 was made in the contract award account so that the account would reflect only the approved change orders as found.

STONEHAM HOUSING AUTHORITY

REPORT No. 51-H-16

Books of Account Kept by Private Accountant: This audit was initiated on August 8, 1950. At that time it was noted that the books of account had not been posted since June 30, 1950. The books of the Authority are posted and financial statements are prepared by a private accountant who visits the Authority's offices periodically. It was necessary to contact this accountant and have him bring the books of account up to date. It is suggested that steps be taken to have these accounts at all times in a current position.

Fee for Architectural Services: In this connection it was noted that the fee as submitted by the architect was overstated by \$681.05. It is recommended that this computation of fee should be reviewed with the assistance of the State Housing Board before final payment is made on the contract.

No Approvals for Transfers from Contingency Fund: When an estimate of the cash requirements is originally set up a certain part of the overall budget is deposited as "Contingency." In this connection the manual of accounts issued by the State Housing Board states:

"This account will not be charged with any expenses. The amount appropriated under this category is to be distributed to the other major accounts as needed and with the prior written approval of the Chairman."

It was noted, however, that in certain instances the original estimates were exceeded by the actual cash disbursements. No approval had been requested or given in these matters. It is therefore, suggested that immediate steps be taken to arrange for approvals of all items of this matter.

No Records of Approved Change Orders: In this connection it was noted that the amount paid to the general contractor on June 14, 1950 indicated \$1,358.39 for change order #13. It was noted that this change order was missing. It was necessary to contact the State Housing Board to secure the necessary information in this respect for audit purposes. It is suggested that an approved copy of this change order be obtained so that the files of the Authority may be complete.

Approved Change Orders Not Posted to Control Account - Contract Awards: It was noted that the balance of this account per the general ledger was \$1,059.56. Upon analyzing this account it was noted that the balance was \$2,968.03, a difference of \$1,908.47. This difference is due to the fact that approved change orders had not been posted to the control account. It is recommended that these change orders be currently posted in accordance with the Manual of Accounting Procedure of the State Housing Board.

Authorization of Personnel Employed by the Authority: In this connection it was noted that the minutes of the Authority's meetings did not include the employment dates and hourly rates of pay for part time employees. It is suggested that this information be made a part of the information included with the minutes of the Authority's official meetings.

Management Salaries Charged to Preoccupancy Charges: In this connection it was noted that the salary paid a part time employee was charged to the "Development Cost account, Preoccupancy Charges". This project has been occupied since June 1, 1950, and inasmuch as the duties of this employee pertain to the management of the project it is suggested that the salary be properly charged.

Allowance on Electric Ranges: It was noted that an order from a utility company was placed in the cash book. This order further confirmed an allowance of \$1,920.00 on the installation of 48 electric ranges. It was understood that a request had been made for this sum from the utility company involved, but as of date of audit this had not been received. It is suggested that the company be billed for this amount involved and that a charge be made to Accounts Receivable to bring this item on the books of the Authority.

WALPOLE HOUSING AUTHORITY

REPORT No. 51-H-17

General - Books and Accounts of Authority: This examination was initiated on July 31, 1950. At this time it was noted that the cash books and ledgers were not in balance as of that date.

NATICK HOUSING AUTHORITY

REPORT No. 51-H-18

Administration Fund Agreement: As yet there is no Administration Fund Agreement set up; the project is still under construction and the percentage of completion is about 70%. It is understood that upon completion of the project an Administration Fund Agreement will be set up.

SWAMPSCOTT HOUSING AUTHORITY

REPORT No. 51-H-19

Books of Account Kept by Private Accountant: This audit was initiated on August 17, 1950. At that time it was noted that the cash receipts and disbursements had not been posted since July 31, 1950. The books of account of the Authority are kept by a private accountant who visits the Authority's offices periodically to post the books and prepare financial reports.

It is suggested that arrangements be made to have the cash receipts and disbursements posted by an employee of the Authority on a current basis.

Bank Charge Not Recorded on Books: It was noted in this connection that the cash balance per the books as of July 30, 1950 was \$1,775.90. The actual cash balance in the bank was \$1,772.01 a difference of \$3.89. This was due to the fact a bank charge shown on the July bank statement had not been recorded.

Subsidiary Accounts Kept in Pencil: In this connection it was noted that the Tenants' Accounts Receivable ledger charges and credits were posted in pencil. It is recommended that these accounts be posted with pen and ink.

Payment of Vouchers: It was noted in many instances that disbursements were made on vouchers to which there were no original invoices attached. It is suggested that complete detail be available with all vouchers when they are submitted for approval to the members of the Authority.

Minutes of the Meetings: On the date of audit it was noted that the minutes of the Authority's meetings were not available since the meeting of September 6, 1949. A request was made for these minutes and it was learned that they were in the custody of the attorney for the Authority for typing in legal form. Upon receipt of these minutes it was noted that the minutes had only been completed in the minute book only through the meeting of November 8, 1949. The other minutes including that of July 5, 1950 were typed on various pieces of paper. The balance of the minutes since July 5, 1950 are kept in a book, written in pencil. It is suggested that the minutes of the Authority's meetings be brought to a current basis and maintained in the manner prescribed by the State Housing Board.

Issue of Second Series Notes Not Reflected on Books: It was noted that on May 18, 1950 temporary notes in the amount of \$400,000.00 were issued. The proceeds of these issues were used to redeem a portion of the temporary notes then outstanding. These receipts and disbursements were not reflected on the books of account of the Authority. It is suggested that all transactions be entered on the books of account.

Architect's Fee: It is suggested that the matter of the architect's fee be reviewed with the State Housing Board before final payment is made to him as it was noted that his payments to date based on percentages as appearing in his contract would indicate an overstatement of his projected final fee in the amount of \$1,538.57.

Control of Rent Receipts: It was noted that the rent receipts now being used are of a type easily purchased at any stationery store. It is obvious that these receipts are not adequate for purposes of internal control. It is recommended that the Authority arrange to have specially numbered receipts printed for use in collecting rents.

Cash in Office: It was noted on date of audit that cash totaling \$305.95 was in the office. This represented collections for fuel oil sold to tenants between August 1, 1950 and August 17, 1950. This oil was originally paid for by the Authority because when the tanks were purchased from the contractor they were partially filled. The cost of this oil is being reimbursed by the respective tenants over a three month period. It is suggested that these collections be deposited promptly.

Payments to Sub-Contractor: On June 13, 1950 a disbursement was made in the amount of \$45.31 to the electrical sub-contractor of the project, for furnishing electric lamps. In this connection attention is directed to the following extract from Division 11, "Electric Work" of the contract specifications:

"Electric Lighting Systems

Furnish, install and connect Dwelling Unit Service Centers, cable, cable supports, outlet boxes, lighting fixtures complete with glassware and lamps, shades, receptacles, switches, and all necessary fittings, plates, covers, and appurtenances for a complete residence wiring system."

It was also noted that a further disbursement was made on July 5, 1950 to this same sub-contractor in the amount of \$216.00, for furnishing and installing electric range cords. Under Division 11, "Electric Work" in the specifications, the scope of the work to be done reads as follows:

"The work to be completed under these specifications shall include the furnishing of all labor and material to complete the installation of the following items, in accordance with these specifications and the accompanying drawings.

- a. Wiring for light and power to all outlets, devices and equipment.
- b. Wiring for doorbells.
- c. Lighting fixtures.
- d. Electric Ranges."

This disbursement was questioned and it was mentioned that the matter had been discussed with the Director of the State Housing Board and it was presumed by the Authority that he had approved this disbursement. The Director of the State Housing Board when questioned could not recollect any conversation regarding this item, nor could any one on his staff. He stated that if verbal approval had been given, a letter authorizing this would have been sent to the Authority shortly thereafter. He further stated that the practice would have been to request a change order due to the nature of the necessary work. He also stated that he had talked to the Authority's architect on this matter and that the architect was of the opinion that these items were included with the specifications for the project.

It is therefore recommended that these amounts be reimbursed by the sub-contractor.

Payment to General Contractor Item Supposedly Included with Contract: An analysis of the change orders showed that the amount of \$234.00 was expended on May 16, 1950 because of the requirements of local regulations and public safety rules. Attention is directed to the General Conditions, Section 54A of the contract which reads as follows:

"All work to be performed under this Specification shall be in accordance with all applicable laws, State or Federal, and all applicable ordinances, codes, rules and regulations, of the Town of Swampscott or any public board or officer having any jurisdiction, regulation or control over any work to be done hereunder."

Payment of Change Order Without Proper Approval by State Housing Board: It was noted that on May 16, 1950 a payment was made in the amount of \$10,205.80 to the general contractor for his periodical estimate for the period from April 1, 1950 to April 30, 1950. Included in this amount was an addition of \$255.60 for a change order. Inasmuch as previous change orders had exceeded the 2% contract limitation, an effort was made to find the approval of the Director of the State Housing Board. Because this approval could not be located attention is called to the following memorandum from the State Housing Board dated April 6, 1950:

"To All Local Housing Authorities, Architects and Contractors:

The General Conditions of the standard construction Contract provides that the housing authority will not order changes or extras which, together with the cost of all previous changes or extras, increase the contract price in an aggregate amount exceeding 2% of the original contract price, without the prior written approval of the Director of the State Housing Board.

Contractors are put on notice that this provision will be enforced and that any work performed without the prior approval of this office in excess of the contract price and the 2% contingency will not be approved retroactively.

Very truly yours,

/s/ Harold Robinson
Director"

The attention of the State Housing Board is called to this violation for whatever action they deem necessary.

WELLESLEY HOUSING AUTHORITY

REPORT No. 51-H-20

Rental Income: It was noted that a rental payment for a part of a month was entered directly into the rental income account. This income should have been included in the rent roll from where it would have been debited to Accounts Receivable. The collection would have been recorded in the Accounts Receivable Account.

Dwelling Vacancy Loss: It was noted that in many cases the rent income which was lost due to vacancy was deducted from the Dwelling Rent Income. The Manual of Accounts issued by the State Housing Board states that account "3200 - Dwelling Vacancy Loss" should represent the total of dwelling rents not realized in any period due to vacancy of units available for dwelling. It is recommended that all income lost due to vacancy losses be set up in the above account.

Rent Receipts Slips: In attempting to reconcile the inventory of the rent receipt slips,

it was noted that a number of slips were missing and that many unnumbered receipt slips were being used. This arrangement obviously results in an uncontrolled inventory of rent receipt slips, making it impossible to accurately credit income from this source. It is suggested that these rent receipts be prenumbered by the printer in the future.

Chapter 200-1 - Change Orders Affecting Contracts: In analyzing the Contract Award Account, it was noted that not all additions to contracts by virtue of Change Orders are reflected in this account. It is recommended that all these amounts be posted to this account.

Contract Award Account: In analyzing the Contract Award Account, it was noted that the architect's estimated total fee, together with other miscellaneous contracts including stoves, refrigerators, etc. are not reflected in this account. The Manual of Accounts issued by the State Housing Board states that this account should represent the value of the incompleated portion of development cost contracts.

Architect's Fees: It was noted that the architect received \$13,222.80 for work on a site which was later abandoned. This was noted as having been approved by the State Housing Board. The abandoned site was to have been one apartment building of ten floors. The landscaping and site planning were near completion when the townspeople voted against this type of construction with the result that the project was never completed.

Contract for Financial Assistance: It was noted that the number and type of units have been revised with no change in the total cost. This amendment has not yet been received by the Authority.

Signing of Change Orders: It was noted that approving signatures on Change Orders were not always those of the Chairman of the Authority. Generally it was that of the Executive Director. The minutes of the meetings fail to indicate that this Authority has been vested in the Executive Director.

Unearned Interest Account: The unearned interest account was overstated by \$753.17 because of an unrecorded earned interest adjustment at time of sale of United States Treasury Bills. This matter was brought to the attention of the proper authority personnel and the necessary changes were made.

NANTUCKET HOUSING AUTHORITY

REPORT No. 51-H-22

Records: The books of account of the Authority consist of a two column cash book, a check book and a petty cash book.

It is recommended that an adequate set of accounting records be maintained by the Authority in accordance with the instructions of the State Housing Board.

Lack of Organization Seal: It was noted that the Authority has no seal. It is recommended that the Authority maintain a seal in accordance with its by-laws.

BRAINTREE HOUSING AUTHORITY

REPORT No. 51-H-23

General - Personnel not Bonded: It was determined that all but one person handling money for the Braintree Housing Authority was bonded. The clerk-typist who accepts rents from the tenants, and also makes the bank deposits is not bonded. It was recommended that a position bond be obtained in this case.

Title V - Rent Due: It was noted that a total of \$484.88 was due the Braintree Housing Authority from present and former tenants. It is understood that steps are being taken to effect the collection of this balance.

Chapter 200-1 - Development Costs: It was noted that there was no control account for development costs in the general ledger or cash book. This account is prescribed by the Manual of Accounting procedure issued by the State Housing Board and it is recommended that this account be set up on the books.

WINTHROP HOUSING AUTHORITY

REPORT No. 51-H-24

General - Disbursements for Postage: In a few instances it was noted, checks were

drawn payable to a member of the Authority for purchase of postage. It is suggested that a receipt be obtained if possible for these purchases.

General - Purchase of Rent Receipts: Due to the fact that rents were being collected by a local private real estate agency the Authority had not arranged any printed rent receipts as of date of audit. It is understood that special prenumbered receipts will be printed for the Authority's use, inasmuch as the rents will be collected directly by the Authority - the arrangement with the private real estate agency terminating on August 31, 1950.

Chapter 372 - Petty Cash Fund Not Shown on Books: On the opening day of the audit, August 29, 1950, an envelope containing \$3.00 in cash and vouchers in the amount of \$22.00 representing the Petty Cash Fund was found in the office. A trial balance of the general ledger did not include this amount. In this connection it was noted that on June 7, 1950 the disbursements establishing this fund had been charged directly to the General Expenses Account. It is recommended that this fund be set up in the general ledger and the proper expense account be adjusted accordingly.

Chapter 372 - Deposit of Rent Receipts: It was noted in the opening day of the audit that an employee of the Authority held currency belonging to the Authority in the amount of \$24.00 on his person. This money which had been collected for rent had not been entered in the cash receipts book although it was understood that it had been collected a few days prior to that day. It is recommended that all cash receipts be entered on the books of account upon receipt and deposited to the credit of the Authority as soon as possible thereafter.

Chapter 372 - Tenants' Accounts Receivable - Variance In Control Account and Subsidiary Ledger: It was noted that the balance of the control account for Tenants' Accounts Receivable showed a debit balance of \$259.00. The trial balance of the Tenants' ledger indicated a credit balance of \$85.40 a total variance of \$344.40. This difference was composed of the following items.

1. Rent charges in the net amount of \$102.40 had been made to control account that had not been made in the tenants' ledger.
2. Rent refunds in the amount of \$64.00 had been charged to the control account and rent to tenants' ledger.
3. Cash receipts in the amount of \$34.00 collected by the private agency on May 23, 1950 had been entered in the tenants' ledger but had not been entered in the cash receipts book or deposited. It is understood that this money will be deposited in September 1950.
4. Cash receipts in the amount of \$144.00 were credited to the tenants' ledger sheets in July, but were not entered in the cash receipts book or deposited until August 1, 1950.

It was apparent that actual trial balances have not been taken as these accounts have not been in agreement since March 31, 1950. This was complicated by the fact that the control account is maintained in the offices of the Authority by a part-time accountant, while the subsidiary ledger is maintained by the private real estate agency, which collects the rents. When this agreement terminates, as of August 31, 1950, an effort will be made to bring these two sets of accounts into reconciliation.

Chapter 372 - Vacancy Loss Not Shown on Books: It was noted that the books of account did not reflect any amount for vacancy losses. This was caused by making entries providing only for the income from the actual units occupied. Rent refunds were charged directly to the Tenants' Accounts Receivable control account rather than the Vacancy Loss account. The Manual of Accounts issued by the State Housing Board states as follows with respect to this item;

"The debit balance of this account represents the total of dwelling rents (including utilities) not realized in any period due to the vacancy of units available for dwelling use at rental rates contained in the dwelling rent schedule."

During the audit period Vacancy Loss totaled to \$343.20. It is suggested that this account be handled in the manner prescribed so that the actual Vacancy Loss be reflected on the control records.

Chapter 372 - Tenants' Security Deposits: A trial balance of this account was in excess of the balance of the control account in the amount of \$10.00. This was due to the fact that a receipt on May 23, 1950 had been posted to the Tenants' ledger sheet and had not been deposited. It was understood that this money will be deposited subsequent to the date of audit.

It was noted that the Authority is not properly handling the detail within this account. In certain instances the security deposit is set up as an Account Receivable, at which time the Security Deposit account is credited. In this instance the credit was made to the Rental Income Account, consequently, the additional deposit was not reflected on the books. It is therefore suggested that these accounts be handled in accordance with the Manual of Accounting Procedure issued by the State Housing Board.

Chapter 200 - Availability of Information Pertinent to Audit: The current audit was complicated because certain records were not available in the office or files of the Authority. These items included the following:

- The approved construction contracts.
- The approved contracts for ranges and refrigerators.
- The approved architect's contract.
- Numerous approved change orders for which payment had been made.
- Various bids on the construction contract, general and sub-bidders, and bids on ranges and refrigerators.
- Correspondence from the State Housing Board in reference to the setting of a price for negotiations for the purchase of land.
- The approved Administration Fund agreements.

The unavailability of these items caused unnecessary delay in the progress of this audit. It was necessary to contact former members, the Authority's attorney and the State Housing Board to gain access to much of the necessary information. It is suggested that all necessary documents be always kept in the files of the Authority.

Chapter 200 - Disbursements for Building Permits: On July 25, 1949, a disbursement was made in the amount of \$380.00 to the Town of Winthrop for building permits for Site B. On September 26, 1949, an additional disbursement was made in the amount of \$723.00 to the Town of Winthrop for building permits for Site A. In this connection attention is directed to the general conditions of the construction contracts for Sites A and B, paragraph 15A which reads as follows:

"The contractor shall obtain all required licenses and permits for the work herein provided."

Inasmuch as it would appear that the contractor should have paid for the permits it is suggested that these amounts be collected from the contractor.

It was also noted that a disbursement was made on April 10, 1950 in the amount of \$5.00 in payment of an invoice for starting an oil burner and fixing a switch on an electric stove at the project. It would appear that this item too should have been paid for by the contractor, and it is suggested that steps be taken to effect collection.

Chapter 200 - Purchases of Oil: It was noted that the Authority purchased 2,963 gallons of fuel oil at a cost of \$326.07. The biggest part of this oil had been delivered to the various units which had been accepted for occupancy. Upon comparing the delivery dates of this oil with the dates of occupancy it was found that 1000 gallons of oil costing approximately \$110.00 should have been charged to the individual tenants. In addition 1,163 gallons costing \$124.07 should have been prorated between the tenants' accounts and the maintenance account, taking into consideration tank readings on the actual respective dates of occupancy of the units. It was further noted that 800 gallons of oil costing \$92.00 should have been paid for by the contractor inasmuch as the units which this oil was delivered had been accepted by the Authority, subsequent to the date of delivery of this oil. In this connection it was noted that the contractor charged the Authority \$51.45 for the 490 gallons of oil remaining in these units on date of acceptance.

It is suggested that steps be taken to adjust this matter to the complete satisfaction of all concerned.

Chapter 200 - Overpayment on Architect's Fee: It was noted that payments to the architect totaled \$27,096.25. In computing the architect's fee, by applying the percentages shown in the tables attached to the architect's contract, it was found that they should have

been only \$24,173.94, an apparent overpayment of \$2,922.31.

In a memorandum dated January 16, 1950, the State Housing Board requested all housing authorities to submit the architect's fee to them for approval prior to final payment. It was also noted that in a letter dated February 8, 1950, the State Housing Board gave the Authority the necessary information for the computation of the architect's fee. A copy of the Authority's letter in reply, dated February 7, 1950, follows:

COPY

February 17, 1950

State Housing Board
18 Tremont Street
Boston, Massachusetts

Attn: Harold Robinson, Director
Re: Winthrop Housing Authority, 200-1

Dear Mr. Robinson:

This is to acknowledge receipt of your letter of February 8, 1950, with reference to the allocation of fees in regard to the architectural work performed at the Winthrop Housing Project.

Counsel for the Authority has discussed the contents of the letter above mentioned with Mr. Webster in your Development Section and I am writing to you at this time merely to advise you that the members of the Authority will discuss the matter and determine the obligations of the Authority under its contract with reference to architectural fees.

Obviously the Authority does not wish to be bound by the decisions of others with reference to its obligations under its contract particularly where it had no opportunity to be heard in regard to same.

Sincerely yours,

Winthrop Housing Authority

By: _____
Chairman

cc: Arthur G. Manaselian, Arch.
cc: Olmstead Bros.

It is recommended that the matter of the overpayment to the architect be immediately discussed with the State Housing Board so that the necessary steps may be taken to recover the amount in question.

Chapter 200 - Investments: It was noted that this Authority had not invested its excess funds in United States Treasury Bills. The State Housing Board, on September 21, 1949, advised all Authorities to invest such excess funds for the purpose of lowering the net interest cost involved in the construction of the projects. In spite of the fact that the Authority has maintained cash balances ranging up to \$749,010.42, some part of which could have been readily invested, the Authority did not see fit to make investments. By failing to invest the excess funds available, the Authority has overlooked a source of income, which would have resulted in a reduction of the final net development cost.

Chapter 200 - Reimbursed Expenses not Approved: It was noted that a disbursement was made on April 17, 1950 in the amount of \$590.00 to reimburse a former member of the Authority for certain expenses incurred by him personally from July 12, 1948 to March 31, 1950. No approval from the Chairman of the State Housing Board could be found for this payment. Attention is directed to Section 17 of the Contract for Financial Assistance, an excerpt of which reads as follows:

"..... provided however that upon approval by the Chairman any such member may be reimbursed for the actual and necessary expenses, including travel ex-

penses, incurred in the discharge of his duties in connection with the development or administration of the project as such member."

It was understood from the present chairman that verbal approval was given by an employee and not the Chairman of the State Housing Board on the promise that the then Chairman of the Authority was doing the work that would ordinarily have been done by an Executive Director, had one been employed. It was the opinion of this employee that the Authority had accomplished a savings and therefore indicated that reimbursement to the member was in order. In this connection it was noted that an assistant to the Chairman was employed by the Authority from December 1949 to March 31, 1950 and received a total of \$588.65 in payments of wages and expenses.

Chapter 200 - No Approvals for Transfers from Contingency Fund: When an estimate of the cash requirements is originally set up a certain part of the overall budget is earmarked "Contingencies." In this connection the Manual of Accounts issued by the State Housing Board states:

"This account will not be charged with any expenses. The amount appropriated under this category is to be distributed to the other major accounts as needed and with the prior written approval of the Chairman."

It was noted in certain instances that the original estimates were exceeded by the actual cash disbursements. It is therefore, suggested that immediate steps be taken to arrange for approvals of all items of this nature.

Chapter 200 - Purchase of Insurance: Under the blanket insurance program put in effect by the State Housing Board, it places each unit accepted under a group policy when it is notified of the acceptance of completed units. Because of this arrangement a lower premium rate is paid by each Authority and a substantial savings have resulted in the projects throughout the State. Each Authority has been regularly informed of the availability of this coverage. In spite of this, it was noted that the Authority purchased fire and extended coverage on 30 day riders from February 3, until May 10, 1950 from an independent insurance brokerage concern.

It was also noted that the cost of this insurance had been charged to the Development Cost. It is suggested that this item be adjusted so that the proper Management Account will be charged.

Chapter 200 - Overpayment of Commission in Collection of Rent: In this connection it was noted that a disbursement was made in the amount of \$221.20 on June 13, 1950. This was supposedly in payment of commissions due to a private agency on rents collected and deposited through April 18, 1950. It was noted that this amount included commissions totalling \$56.00 on Tenants' Security Deposits in spite of the fact that commissions were to be paid only on actual rent collections.

It is therefore suggested that the necessary steps be taken to collect the apparent overpayment.

It was also noted that this disbursement was made from the Development Fund. It would appear that this amount should have been charged to the Administration Fund.

Chapter 200 - Insurance Dividend not Entered in Cash Receipts Book: It was noted that an insurance dividend in the amount of \$67.44, received on August 7, 1950, had not been entered in the cash receipts book, although it had been deposited in the bank. It is advised that all cash receipts should have been entered in the cash book on the date received.

Chapter 200 - Tenants' Accounts Receivable - Variance in Control Account and Subsidiary Ledger: In this connection it was noted that the Tenants' Accounts Receivable control account indicated a net credit balance of \$21.83. A trial balance of the detail in Tenants' Ledger showed a credit balance of \$715.43 a difference of \$693.60. This variance was occasioned by the following reasons:

1. The control account had been charged a net amount of \$164.10 more than the total charges to the tenants' ledger sheets through July 31, 1950.
2. Cash receipts in the amount of \$494.50 had been posted to the individual accounts in July 1950. These receipts were deposited in August, con-

sequently the control account was not credited with this amount in that period.

3. Cash had been received and deposited in the amount of \$49.00, yet the individual ledger sheet was credited with only \$44.00.
4. A receipt of \$40.00 on July 3, 1950 was not deposited until August 4, 1950, although the individual ledger sheet was credited on that date.

It is understood that when the collections of these accounts will be made directly by the Authority as of August 31, 1950, an effort will be made to have the detail of the accounts in the subsidiary ledger kept in agreement with the control account.

Chapter 200 - Development Cost Disbursements From Administration Fund: On July 11, 1950 a disbursement for printing and other bond expenses was made in the amount of \$217.73 from the Administration Fund. This was in relation to the issue of the Third Series Notes. It is recommended that funds be transferred to the Administration Fund from the Development Fund in reimbursement.

It was also noted that a disbursement in the amount of \$86.64 was made for lumber from the Administration Fund. It was understood that the lumber was required because while the original specifications did not call for supports in the stairwells in the cellars, it was later determined they were originally necessary.

It is therefore recommended that steps be taken to reimburse the Administration Fund from the Development Fund.

CANTON HOUSING AUTHORITY

REPORT No. 51-H-26

Chapter 372 - French Estate - General: It is recommended that greater care be exercised in the postings of the various books of the Authority. It is also suggested that a separate line be used in the Tenants' Accounts Receivable ledger each time the cash is received.

All cash received from tenants should be deposited in the bank each day instead of allowing it to remain in a locked file in the office of the Authority.

Chapter 372 - French Estate - Rent Due: It was noted that on the date of audit a total of \$1,830.06 was due for rent from present and former tenants. It was noted, however, that the necessary steps are being taken to effect the collections on those accounts included with the foregoing which are delinquent.

Chapter 200 - Project 200-1 - General: It is recommended that greater care be taken in footing the books of record. A trial balance of the general ledger should be taken at the end of each month for report purposes to the State Housing Board.

STOUGHTON HOUSING AUTHORITY

REPORT No. 51-H-27

Chapter 200 - Project 200-1: It was noted that this Authority had originally entered into a Contract for Financial Assistance for a 200-1 project. However, this project was abandoned because the project site did not meet the local Board of Health requirements.

An agreement signed by the Chairman of the State Housing Board rescinding the Contract for Financial Assistance was seen in this connection.

Deposit on Hand: It was noted that the Stoughton Housing Authority had a certified check for \$1,000.00 in its office on the date of audit. This check was submitted by a subcontractor and represented his original faithful performance bond on his contract. It is recommended that all deposits of this nature should be credited to an appropriate account upon receipt. They should also be deposited in a bank account in conformance with instructions from the State Housing Board.

HULL HOUSING AUTHORITY

REPORT No. 51-H-28

Interest Accrued on Temporary Notes: It was noted that the accrued interest account with a balance of \$2,268.64 was overstated by \$34.15 due to errors in computation. This matter was called to the attention of the proper Authority personnel for adjustment.

Proration of Salary: It was noted that the salary of the Executive Director, who also functions as the Bookkeeper, is being entirely charged to Development, despite the fact

that the project has been in Administration for the past two months. It is suggested that this salary be prorated on some equitable basis.

Approval of Expenditures: It was noted that all Accounts Payable vouchers were approved only by the Executive Director. These expenditures are also recorded in the minutes of the Authority's meetings for approval. As the Executive Director also is the Secretary of the Authority, he signs the minute book so that the signature of only one individual exists as authorization for all items of this nature. It is suggested that the voucher be also approved by another member of the Authority so that a better internal check may be maintained.

Bids of General and Sub-Contractors: An audit of the actual bids of the general and sub-contractors was not made, because the original bids were destroyed by the Authority. Since only a tabulation of bids submitted to the State Housing Board was available the audit was limited.

Incompleted Contracts: The manual of accounting procedure states that this account should represent the value of the incompleted portion of the development cost contracts. It was noted, however, that the unliquidated balance of the architect's contract was not included in this account.

Award of Range Contract: It was noted that the contract for ranges was awarded to the second lowest bidder at 10 cents per stove higher. The reason given by the Authority was that he had a more desirable stove. The low bidder later withdrew his bid, it was noted.

Capital Surplus Donated: This account represents the value of land donated by the Town of Hull for \$3,700.00 and expenses reimbursed by Town of Hull, totaling to \$182.49. These expenses are included in Development Costs, while the value of the land is shown in a separate account.

Dwelling Vacancy Loss: The manual of accounting procedure states that this account should represent the total of dwelling rents not realized in any period due to the vacancy in units available for dwelling use. One instance was noted wherein it was impossible to rent a unit for one half month. The resultant vacancy loss of \$21.70 was not recorded on the records. It is recommended that an adjustment be made to bring this vacancy loss on the records.

Site Improvement: It was noted that the cost of site improvement was \$32,600.29 while the amount in the budget set up in the Certificate of Purposes is only \$23,000.00. The excess of \$8,600.29 is due to the proration of the contractor bid on structures and equipment and site improvement costs, and a change order which increased the cost by substituting gas installation for electricity.

NORWOOD HOUSING AUTHORITY

REPORT No. 51-H-29

Grant from Town of Norwood: It was noted that the Town of Norwood had granted to the Norwood Housing Authority \$1,000.00 with no restrictions. Disbursements totaled \$365.34. These transactions were not reflected on the books of the Authority.

It is recommended that all receipts and disbursements be recorded in the books of the Authority.

NEEDHAM HOUSING AUTHORITY

REPORT No. 51-H-30

Insurance - Project V-19114: It was noted that as of date of audit there was no file or general liability insurance on this project. It is recommended that this coverage be obtained immediately.

Appropriation Fund - Project V-19114: As of date of audit this fund indicated a balance of \$756.89. This fund has not been set up in the Books of Account of the Authority nor has there been any activity in it during the current audit period.

It is recommended that this fund be set up on the financial records of the Authority.

Analysis of Expenses: It was noted that certain expenses of this project were charged

to account 4400 - "All Other Expenses." It is recommended that these items be posted to the following accounts in accordance with instructions in the Manual issued by the State Housing Board;

- 4100 - Management
- 4200 - Operating Services
- 4300 - Dwelling and Commercial Utilities
- 4700 - General Expenses
- 4730 - Collection Losses

Development Cost Analysis - Project 200-1: As of date of audit there was no Development Cost Analysis for this project as required by the Manual of instructions of the State Housing Board.

In this connection the Manual requires that a separate Cost Analysis be maintained for each project. This analysis should reflect in detail costs chargeable to the development of the individual projects. The detailed costs recorded on each Accounts Payable Voucher should be posted individually to the respective accounts. Thus the total of each major group classification should at all times be in agreement with the totals of corresponding accounts in the General Ledger. This analysis can then be used to provide a complete breakdown of the Development Costs which have been posted under major classifications only.

CHELSEA HOUSING AUTHORITY

REPORT No: 51-H-31

General - Partial Payments of Rent: This audit was initiated on September 28, 1950, and as is the practice, a request was made for all the cash on hand for audit balancing. It later developed, however, that approximately \$85.00 was on hand that had not originally been presented for audit. No explanation was given as to the whereabouts of this money on the audit date.

This amount represented partial payments of rent for which no receipts had been given and for which no entry had been made in the Authority's books to that time. It was understood that this practice has now been discontinued. Permanent receipts are currently being given from all income items and the proper entries are being currently made in the books of account.

General - Recommendations of Previous Audit Report: In this connection it was noted that the bookkeeping recommendations made in the previous audit report were completely ignored. During the course of this audit necessary adjusting entries were made which corrected the various items indicated in that report.

General - Rent Receipts Signed Prior to Receipt of Money: It was noted that when a new receipt book was started, the employee in charge of collecting the rents signed in advance all of the receipts in the book by means of a rubber stamp. It was further noted that rents are often collected by another employee. It is recommended that these slips be signed only at the time of the receipt of the money by the employee making the collection.

General - No Records Available of Rent Receipts Purchased: It was noted that rent receipts are purchased locally. As this arrangement precludes the possibility of positively identifying all rent receipts, it is suggested that, in the future, rent receipts be especially printed and that they be prenumbered in advance.

General - Proration of Salaries and other Expenditures: It was noted that the salary of the Executive Director is charged entirely to the Administration Fund of the 200-1 Project. It was also noted that the salary of the accountant is charged as follows: 32% to Project 200-1 and the balance, 68% to the project under Chapter 372. It is suggested that these salaries be prorated on a per unit basis.

It was also noted that various office items are not prorated between the various projects. In this connection it was noted that the purchases of office furniture and fixtures in the amount of \$993.79 was charged entirely to the Development Fund of Project 200-2. It is suggested that items of this nature be prorated on some equitable basis.

General - Deposit of Rent Collections: In this connection it was noted that cash receipts for rent had on various occasions been held in the office for several days. In a few instances these receipts were held in the office over week-ends. These amounts ranged

from \$106.00 to \$1,043.00. It is recommended that the rents collected be deposited daily - the danger of allowing cash to remain in the office for days is, of course, obvious.

General - Insurance on Furniture and Fixtures: It was noted that there is no insurance in effect on the furniture and fixtures in the office of the Authority. The Authority has expended \$1,069.29 for furniture and fixtures from Chapter 200 projects and some furniture and fixtures have been purchased from the funds of the project now operating under Chapter 372. It is suggested that adequate insurance be obtained for these items.

General - Court Costs and Constables' Fees: While the audit was in progress an envelope was found containing \$21.00, which represented cash received from tenants in reimbursement of court costs and constables' fees. Of this amount \$15.00 was applicable to the 200-1 project and the balance, \$6.00, to the projects operating under Chapter 372. These receipts had not been entered on the books of account. It is recommended that they be properly entered and deposited.

It was further noted that there is no consistent procedure for the handling of these items. In some instances the tenants are charged for these expenses and in others they are not. It was understood that it is the intent of the members of the Authority to charge the tenants for all these fees. It is suggested that items of this nature be handled in the manner prescribed in the manual of accounting procedure provided by the State Housing Board.

Chapter 372 - Return of Funds to City of Chelsea: It was noted that the Authority will probably return a substantial part of the money originally advanced by the City of Chelsea. The return of the money is pending a visit from the Public Housing Administration auditors for purposes of examining the accounts of this project through February 28, 1950.

The City of Chelsea has at various times advanced for the use of this Authority the total amount of \$50,892.00. In March and April of 1946, a total of \$27,500.00 was appropriated by the City to provide funds for preliminary expenses and to defray expenses incurred in providing the site and utilities necessary for the erection of the temporary units. In May of 1947, \$10,000.00 was appropriated and turned over to the Authority for the purpose of installing gas hot water heaters and stoves in these units. In October of 1949, the payment in lieu of taxes on these units, in the amount of \$13,392.00 was abated by the City. This was abated due to the necessity for repairs in these units and the fact that the Authority did not have funds available to complete these repairs.

The amount that will be refunded to the City will be determined after the taking into consideration of the following:

a) The City Fund:

As of date of audit there was an unexpended balance of \$5,480.67 in the bank. It was understood that the balance of the account will be returned to the City of Chelsea.

b) Accounts Payable - City Fund:

The balance of this account as of date of audit was \$8,815.20. An analysis of this account showed that \$2,075.20 was for expenditures made from the City Fund for this project. It further indicated that \$800.00 of the balance was cash received from the Public Housing Administration which should have been deposited in the City Fund. The balance of this amount \$5,940.00 represented land rental allowed by the Public Housing Administration which is payable to the City of Chelsea in the same manner as - Payments in Lieu of Taxes.

c) Accounts Payable - City Oil Burner Account:

The balance of this account as of date of audit was \$3,083.47. This balance represents the amount accumulated on a per unit basis to reimburse the City for the installation of the oil burners in these units, in accordance with an agreement with the Public Housing Administration.

d) Accrued Payments in Lieu of Taxes:

The balance of this account as of date of audit was \$2,232.00. This amount had been charged against operating expenses for January and February of 1950.

On the basis of the above, the City of Chelsea should receive \$19,611.34. Of this amount \$11,439.34 is in reimbursement for expenditures from the City Fund. In addition to this amount the City will receive the excess of income over expenses at the end of the year, which as of date of audit totaled \$5,125.69 before the operating reserves were deducted.

Chapter 372 - Tenants' Security Deposits: In this connection it was noted that security deposits were being held for the accounts of eight former tenants. It was further noted that five of these tenants had vacated their apartments owing rent balances aggregating

\$411.00. These deposits had not been applied against these balances in spite of the fact that this is one of the purposes of accepting security deposits from tenants. The other three tenants had vacated in July 1947, February 1948, and May 1948, respectively. There was no outstanding balance on any of these tenants, yet these deposits were not returned. It is suggested that steps be immediately taken to adjust this account, and that it be henceforth used for only the purposes originally intended.

Chapter 372 - Repairs to Properties: It was noted that from November 1949 through June 30, 1950, a total of \$17,533.46 had been disbursed for various repairs to the physical properties. It was also noted that no bids had been received for any of this work and furthermore one company was allowed to do all of this work. In addition it was noted that this same organization was paid \$300.00 to survey this property in September 1949 to determine to what extent repairs were necessary.

Included with these repairs was the amount of \$4,546.91 which was for the following:

Repairing, numbering, painting, installing and storing of storm sash, window screens and combination storm doors including screen and glass insets.

Remove 10 combination doors beyond repair and installed 10 new doors complete with hardware.

It is deemed worthy of comment that on February 3, 1950, a disbursement was made in the amount of \$5,570.91 for the installation of 519 new storm windows and 54 new combination storm doors.

Chapter 372 - Leases: It was noted that leases had been signed for a period of one year in March and April of 1946 on various lots of land which are part of the sites of this temporary project. These leases gave the Authority the option to extend the term of the lease from year to year for four additional years. It was noted that these options had not been exercised since March of 1947. It is, therefore, recommended that immediate attention be given to this matter.

In view of the fact that extensive repairs were made to the units at these sites in December of 1949, it is suggested that it might be wise economy to extend the period of these leases until May 1954, when these projects are scheduled to be abandoned, under the existing statutes. It is further suggested that the Board of Park Commissioners of the City of Chelsea be requested to grant the use of Memorial Park as a site for an additional three years, if this is possible.

Chapter 372 - Petty Cash Fund: It was noted that there has been no activity in this account since November of 1949. Inasmuch as there is an active Petty Cash Fund of \$60.00 in the 200-1 project, it is suggested that this account be closed out.

Project 200-1 - Missing Refrigerators: It was noted that, although the Authority had purchased 41 new refrigerators for this project, only 39 could be accounted for on date of audit. It was understood that some of these refrigerators had been stored in a garage hired by the Authority for this purpose. Attention of the State Housing Board is directed to this matter and it is recommended that immediate action be taken to ascertain the whereabouts of the missing refrigerators.

Project 200-1 - Expenses re Court Case: It was noted that in April of 1950 the amount of \$46.82 was paid from the petty cash fund for certain expenses of two members of the Authority, two employees of the Authority and its attorney. It was further understood that it included cab fares, telephone calls and meals for these five who attended a court case as representatives of the Authority. In this connection it was noted that the two members submitted additional individual vouchers for expenses incurred on this same case, one in the amount of \$56.00 and the other in the amount of \$44.00. There was, however, no approval by the Chairman of the State Housing Board for the reimbursement of these expenses as required under Section 17 of the Contract for Financial Assistance.

The propriety of these disbursements was questioned and one of the members concerned indicated that his reimbursement was for wages lost due to appearing in court. The other could not recall but felt that this reimbursement was an accumulation of expenses over a period of time. It is suggested that in the future complete information be furnished when reimbursement for expenses is requested. It is also recommended that necessary approvals be obtained from the Chairman of the State Housing Board.

Project 200-1 - Payments for Exterminating Services: The previous report indicated that the Authority is paying \$135.00 every three months for exterminating services on this

project. It was noted, however, that at a meeting of the Authority held on April 28, 1949, the members were informed that this same company had offered to take care of the necessary extermination services on this project for \$25.00 every three months. It was further noted that on the following meeting, May 11, 1949, the members of the Authority agreed to pay this company \$50.00 every three months for extermination services for a period of six months only. The minutes of that meeting also stated that the work would be reviewed at the end of that period for the purpose of agreeing on future payments. In this connection, it was noted that this company was paid \$50.00 for the first three months and since then has been receiving \$135.00 every three months. The propriety of paying \$135.00 every three months is questioned inasmuch as no mention was made of this amount at Authority's meetings, even though the matter was discussed at least on two occasions.

Attention is further directed to Section 15a, item 2 of the Management Resolution, adopted on July 25, 1949, which reads as follows:

"All purchases and contracts involving a sum of not less than \$100.00 and not more than \$500.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors."

Project 200-1 - Insurance Commissions: It was noted that all insurance commissions are turned over by the broker of record to the Chelsea Insurance Brokers Association. It was further understood that the commissions are distributed to the brokers on the basis of a list which was submitted to the Authority on March 15, 1950. It was noted that one of the insurance brokers on this list is at present a member of the Authority. In this connection, attention is directed to Section 17 of the Contract for Financial Assistance which states in part, as follows:

"No member of the Authority shall participate in any decision relating to the project, affecting his personal interest or the interests of any corporation, partnership, or association in which he is directly interested. No member, officer, agent, servant, or employee of the Authority or of the city or town in which the project is located, shall have any interest, direct or indirect, in any contract for property, materials, or services to be acquired by the Authority or furnished or used in connection with the project."

Project 200-1 - Petty Cash Fund: It was noted that with a few exceptions, the vouchers supporting the disbursement of petty cash items were not properly signed by the recipient. Attention is directed to the previous audit report which called this matter to the attention of this Authority. It is again recommended that the necessary signatures be obtained on these vouchers.

Project 200-1 - Prepaid Insurance: In this connection, it was noted that the balance of this account was \$4,109.76 per the books. An analysis of this account showed that approximately \$4,045.00 of this amount had already expired.

It was also noted that on April 17, 1950, a disbursement was made in the amount of \$158.90 in payment of the premium due on a three year Comprehensive Public Liability policy. This amount was charged to the account, General Expense. As of date of audit \$136.83 of this should have been prepaid. It is therefore recommended that these accounts be adjusted.

Project 200-1 - Duplicate Payment of Invoice: It was noted that on March 20, 1950, a disbursement was made in the amount of \$4.30 in payment of an invoice dated February 18, 1950 for stock and labor in connection with plumbing work. It was also noted that a duplicate of this invoice was paid on May 5, 1950. It is therefore suggested that steps be taken to recover this overpayment.

Project 200-1 - Vacancy Loss not Reflected on Books of Account: It was noted that Vacancy Loss in the amount of \$9.20 which was written off as recommended in the previous audit report was not correctly reflected on the books of account.

It is suggested that this account be adjusted and the amount of Vacancy Loss be brought on the books.

Project 200-2 - Approved Change Orders not Posted to Control Account - Contract Awards: It was noted that the balance of the account, Contract Awards, per the books was \$808,414.01. An analysis of this account, however, indicated that the actual balance should have been \$814,558.63, a difference of \$6,144.62. This variance represented approved

change orders which had not been properly entered. It is recommended that change orders be currently posted to this account when approved.

Project 200-2 - Development Fund Agreement: It was noted that this Authority has two depositories for the funds of this project. It was noted that there was no agreement with one of these banks as is required. It is therefore suggested that the approval of the Chairman of the State Housing Board be obtained as to the acceptability of this particular depository.

Project 200-1 - Complete Development Costs: Although this project was initially occupied in February of 1949, it is still not possible to determine the final development costs. As of date of audit the development costs of this project totaled \$996,181.70 as per the books. In comparing this amount with the development costs total as of December 31, 1949, which were indicated as \$1,012,574.48, it would appear that the costs had been reduced by \$16,392.78. This apparent reduction was accomplished by crediting the premium of \$59,310.00, received on the Fourth Series Notes to the Development Cost Account, "Interest During Development". If this premium had been amortized in accordance with sound accounting procedure, the development costs, as of date of audit, would amount to \$1,044,508.37, an increase of \$31,933.89 since December 31, 1949. This is further increased by a contract retention in the amount of \$2,500.00 which still had not been entered on the books. This total represents a cost of approximately \$15,000.00 per unit and also exceeds the maximum development cost of \$1,040,000.00, as established by the Contract for Financial Assistance, by \$7,008.37.

An idea of how even this cost will be increased can perhaps be gathered from the following:

- a) At present there are two pieces of land which were taken by eminent domain. The settlement for this land is still pending in the Land Court. It is now estimated that this will amount to \$7,000.00.
- b) There is an unpaid invoice in the amount of \$1,094.72 from the architect of this project. It was understood that this would be paid at a later date, perhaps at an adjusted amount.
- c) Fees for title examinations and abstracts have not been entirely paid. Fees in the amount of \$2,340.00 have been approved for this work on Projects 200-1 and 200-2. It was understood from the attorney doing this work that the greater portion of this will be charged to this particular project.
- d) A former employee of the Authority is suing to recover a judgment for breach of contract. This former employee was awarded damages in the amount of \$4,171.76 to June 13, 1950 in Superior Court. The Authority appealed this finding and the case is still pending in the Supreme Court as of date of audit. It was understood that a portion of this award will be charged to this project when paid.
- e) Action is being taken to secure liquidated damages from the general contractor responsible for the construction of the project. It was understood from the Authority's attorney that 50% of the cost of the arbitration proceedings will be paid by the Authority. In addition there will be fees for various experts who have submitted reports and who will testify during the arbitration proceedings.
- f) Interest on the notes outstanding will exceed the amortization of the premium by approximately \$800.00 a month. These notes are not due until July 30, 1951.

Project 200-1 - Condition of Project: As of the date of audit, this project at present represents the highest unit cost of any housing project audited by this department. From the foregoing, it is evident that even this cost will be increased. At the same time this project offers the poorest accommodations of any permanent housing construction thus far initiated.

The Building Inspector and the Plumbing Inspector of the City of Chelsea have stated that the over-all construction of this project is far below standard and that their authority and recommendations were continuously ignored by the State Housing Board during the construction of the project.

As pointed out in the previous audit report of this Authority, issued by this department, responsibility for the construction of this project rests solely with the State Housing Board. It is mentioned that the members of this Authority have refused to accept this project and are attempting to secure liquidated damages from the contractor. For this reason various experts have been retained by the Authority to submit reports and testify in behalf of the Authority when arbitration proceedings are started. These reports by reputable engineers and experts were examined and appear to go into great detail to show the shortcomings in the contractor's performance.

The fact that this project is completely occupied indicates only the severity of the lack of housing, since rental costs due to excessive construction costs are considerably higher than those found elsewhere and yet, at the same time, they do not appear to be high enough to meet the maintenance and amortization costs of this project under permanent financing. In view of the fact that the credit of the Commonwealth is pledged behind the funds borrowed for construction purposes, it is entirely possible that the Commonwealth may eventually suffer a substantial financial loss as a result of badly managed construction.

As indicated in the previous report, a special commission which was created under Chapter 79, of the Acts of 1948, to survey and study problems of veterans, including housing and hospital facilities, apparently recognized the particular problems of this project and recommended on page 17, item 4, of their report that:

"... a capital grant be made to the Chelsea Housing Authority in the amount of \$350,000.00 to compensate for the premium required by the speed necessary to solve their special housing problem since this problem arose as a result of earlier action by the State."

While this recommendation was included in the special commission's report, no legislation was filed by the commission to accomplish it. Legislation to carry out this recommendation was filed in 1950, but still no legislative action was forthcoming.

It seems obvious at this time that when the housing shortage is eased, it will not be possible to rent these units at a rate sufficient to pay the costs of this project. It, therefore, might be economical for the Commonwealth to make a capital grant to this project in a sum sufficient to insure continued occupancy, otherwise the Commonwealth may some day be required to pay off that section of the debt of the Chelsea Housing Authority which relates to this particular project.

Project 200-2 - Change Orders: This audit was initiated on September 28, 1950. At that time it was noted that change orders aggregating \$43,170.55 had been issued. These change orders exceeded the 2% limitation of \$24,780.00 by \$18,390.55. It is probable that there will be additional change orders inasmuch as this project was only 58.8% complete on this date. It is perhaps significant that another general contractor bid \$31,229.00 less than the general contractor who was awarded the contract. One of the reasons originally given for the award of the contract to the second lowest bidder was that the lowest bidder had the reputation of seeking a great many extras on the contracts which he had undertaken on this program.

ROCKPORT HOUSING AUTHORITY

REPORT No. 51-H-33

General - Books of Account: This examination was initiated October 2, 1950. At that time it was noted that no books of accounts have been set up for the Initial Operating Period as prescribed by the Manual on Accounting Procedure of the State Housing Board.

General - Rent Receipts: It was noted that regular receipts were not issued to all the tenants for payment of their rent. It is recommended that regular rent receipts be obtained for issue to each tenant when rent is paid.

General - Costs of Construction: It was noted that although this project was originally planned to cost \$132,000.00, on April 27, 1950 an amendment to the Contract for Financial Assistance increasing the amount of authorized temporary notes to \$145,000.00 and the cost of the project not to exceed \$151,000.00 was made. On the date of audit it was noted that the development costs totaled \$153,711.42 and the project was still in the development stage.

General - Change Orders Affecting Contracts Not Included in General Ledger Control Account - Contract Awards: In analyzing the contract award account, it was noted that some additions to, and deductions from contracts because of Change Orders, were not reflected in this account. It is recommended that these items be posted to the account.

SALEM HOUSING AUTHORITY

REPORT No. 51-H-34

Chapter 372 - Transfer of Funds from Construction Account to the Operating Account: The previous audit report indicated the necessity of transfer from the Construction Account to the Operating Account in the amount of \$5,372.84. This amount was properly trans-

ferred during the current audit period.

Chapter 372 - Tenants' Security Deposits: A trial balance of the Tenants' Security Deposits taken on date of audit did not agree with the general ledger control account in the amount of \$2.00 and was occasioned by not posting two receipts of \$1.00 each. In this connection it is suggested that trial balances be taken monthly of these deposits so that this type of error will be reduced to a minimum.

It was further noted that one tenant who is in the process of being evicted, had not paid an original security deposit, as this tenant owes a rent balance a security deposit could have been applied to reducing his balance. It is recommended that a security deposit be obtained from all tenants prior to occupancy of a dwelling unit.

Chapter 372 - Tenants' Accounts Receivable: Of the balance of \$2,393.16 for rent outstanding on the date of audit, \$1,412.16 represents charges which are more than two months overdue. It was also noted that there are eight tenants who owe more than \$100.00 each. It is recommended that some program be derived for the collection of these outstanding amounts. In this connection it was noted that one tenant who vacated in October 1949, still owes a balance of \$102.00.

Chapter 372 - Insurance on Leased Property: It was noted that a two unit dwelling which was leased for five years beginning in March 1947, is not covered by any fire or public liability insurance. Since the lease stipulates that all insurance is to be carried on the property by the Salem Housing Authority, it is recommended that it be placed on this building for the remainder of the lease.

Chapter 372 - Certification of the Development Costs: The total development cost of \$444,170.78 plus the financial charges paid directly by the City of Salem in the amount of \$3,292.18 was certified by the State Housing Board on June 19, 1950.

Chapter 200-1 - Insurance on Permanent Project: The fire insurance now in effect was written a month prior to the effective date of the State Housing Board's Blanket Policy and was written for one year. It is understood that when this policy expires the property will be covered by the Blanket Policy, arranged by the State Housing Board.

It was further noted that a Boiler Insurance Policy on which a premium of \$335.00 was paid was not awarded on bids.

Chapter 200-1 - Tenants' Accounts Receivable: The balance due for rents on the date of audit was \$774.17 of which \$594.50 was owed by only three tenants. While these accounts have been forwarded to the Authority's attorney for action, it is recommended that some policy be put into effect which will assert the Authority in controlling such large balances from developing.

It was further noted that a tenant who vacated his premises in February of 1950, still owes \$36.67.

Chapter 200-1 - Deposit on Plans: It was noted that a bid deposit of \$25.00 appears in the cash book as having been received in June 1950. It is understood that this deposit will be forfeited inasmuch as the plans were not returned in which case the proceeds should be used to reduce the total development costs.

Chapter 200-1 - Cost of Land: During this audit period the sum of \$12,000.00 was expended for the land for this project after agreement between the attorneys. It was also approved by the Chairman of the State Housing Board on April 25, 1950.

Chapter 200-1 - Records of Development Costs: It was noted that there was no control account for development costs in the general ledger. This account is prescribed in the Manual of Accounting Procedure issued by the State Housing Board and it is therefore recommended that it be set up.

It was further noted that while subsidiary accounts for the development costs were maintained, the analysis of these accounts had not been posted since March 31, 1949. These accounts should be brought up to date and maintained currently in accordance with instructions in the Manual of Accounting Procedure issued by the State Housing Board.

Chapter 200-1 and 200-2 - Transfer of Funds from Chapter 200-2 Development Fund to Chapter 200-1 Development Fund: On May 9, 1950 it was determined by the Salem

Housing Authority that they had insufficient funds in the Development Fund of Project 200-1 to cover its commitments, and accordingly approved a transfer of \$13,800.00 from the Development Fund of Project 200-2 to the Development Fund of Project 200-1. It was further indicated that this Authority has estimated that the transfer will be returned before December 31, 1950. In reference to this matter, the following excerpt from the minutes of the Salem Housing Authority meeting of May 1, 1950 is shown:

"This matter was referred to Mr. . . . , Finance Officer of the State Housing Board. Later a call was received from Mr. . . . advertising that Mr. . . . unofficially had advised the above procedure in lieu of the time and expense of making a separate note to cover the difference needed. Error was in issuance by the State Housing Board of \$330,000.00 third series notes to replace \$350,000.00 second series notes."

As this transfer appears to be contrary to the provisions of Chapter 200 it is advised that provisions be made to immediately return it.

Chapter 200-2 - Examination of Accounts Payable Invoices: In examining the expenditures it was noted that an invoice had been incorrectly computed for reimbursement of travel expense. The amount paid was \$100.25 and should have been only \$10.03 an overpayment of \$90.22. This matter was brought to the Authority's attention and it is understood that steps have been taken to arrange repayment.

Chapter 200-2 - Land Acquired by Eminent Domain: It was noted that certain land had been taken by Eminent Domain because of disagreement between the land owners and the Authority as to price. Appraisal documents seen indicate that the cost of the land will be approximately \$17,500.00.

Chapter 200-2 - Contract Awards: In analyzing the Contract Award Account in the general ledger, it was noted that the Architect's Contracts for Ranges, Refrigerators, etc. are not reflected in this account. It is recommended that all contracts awarded be recorded in this account.

Chapter 200-2 - Premium on Temporary Notes: It was noted that the total premium received on the second series temporary notes was credited to the Interest Account. As of this audit date, however, \$19,327.30 of this premium was unearned. These premium earnings should be amortized.

Chapter 200-2 - Accrued Interest: The Interest Accrued Account is understated by the amount of \$16.92 because of an unentered entry. This matter was brought to the attention of the proper Authority personnel and the necessary correction was made.

MIDDLEBOROUGH HOUSING AUTHORITY

REPORT No. 51-H-35

Contract Awards and Incompleted Contracts: It was noted that the Authority had a balance in this account of \$5,729.00. Since the construction on this project is now completed, this balance would appear to be no longer necessary. It is suggested that entries be made to close these accounts.

State Housing Board Financial Reports: Only a few copies of the monthly financial reports could be located with the records of the Authority.

One of these reports indicated a balance in the Contract Awards and Incompleted Contracts accounts which was not in agreement with the general ledger balances concerned. The difference represented a payment to the contractor.

Another report showed a balance of the Accrued Interest on Notes which was not in agreement with the general ledger balance. The difference of \$24.47 represented the balance of the Unearned Discount account.

It is recommended that the necessary adjustments be made so that the financial reports and the books of account will be in agreement.

Unearned Discount: It was noted that the Authority had a balance in this account of \$24.47. Since no investments are reflected on the books of the Authority, on the date of audit, it is recommended that the balance of the Unearned Discount account be closed out to the Interest During Development account.

DEDHAM HOUSING AUTHORITY

REPORT No. 51-H-36

Project 200-1 - Permanent Financing: The initial operating period of this project started November 14, 1949, the date of the first tenancy, and ended on September 30, 1950, with the issue of the funds under the so-called Permanent Financing. In this connection it was noted that the bond issue of an interest rate of $1\frac{3}{4}\%$ was in the aggregate amount of \$804,000.00, the total development cost of the project.

It was also noted that the management accounts for the initial operating period were closed on September 30, 1950, and new accounts under permanent financing were opened as of October 1, 1950.

METHUEN HOUSING AUTHORITY

REPORT No. 51-H-37

Chapter 372 - General - Books of Accounts: It was noted that the only record which existed for this project was a Cash Receipts Register and a Cash Disbursements Register. No trial balance could be taken as there were no General Ledger accounts.

As no Tenants' Accounts Receivable ledger is maintained it was impossible to verify the income of the project. No copies of rent receipts are retained. The Executive Director sends rent receipts to the tenants on the first of each month and signs them when he collects the rent on the tenth of the month.

The Executive Director has indicated that he will set up the records prescribed by the Manual of Accounting Procedure set up by the State Housing Board as of January 1, 1951. He indicated that he will also set up a Tenants' Accounts Receivable ledger and will also use duplicate rent receipts.

Chapter 200 - General - Book of Accounts: It was noted that the rental income and the Tenants' Security Deposits are all deposited in the Administration Fund Cash account. It was suggested that the Tenants' Security Deposits be made in a separate bank account.

Chapter 200 - Minute Book of Housing Authority: It was noted that the minutes of the Authority's meetings from December 15, 1948 to March 9, 1949 could not be located in connection with this examination. It is recommended that greater care be exercised in controlling these very important records.

Chapter 200 - Development Costs: It was noted that although this project was planned to cost \$680,000.00 with a unit cost of \$11,333.00, it now appears that the actual final cost, will amount to approximately \$590,000.00, with a unit cost of \$9,833.00.

IPSWICH HOUSING AUTHORITY

REPORT No. 51-H-38

General - Books of Account of Authority: It was noted that the books of account on the Chapter 200 project were not set up in accordance with the procedures outlined in the Manual of Instructions issued by the State Housing Board. The Cash Disbursement book consisted of a cash or bank account column, general ledger account columns and development cost control account column. The subsidiary account columns on development costs were omitted. The subsidiary accounts were also omitted in the general ledger. The analysis of development costs as prescribed by Manual was also omitted.

It was also noted that there were no permanent books of accounts on the Title V project. It is suggested that accounts conforming to the regulations be set up and put into effect as soon as is possible.

General - Filing: Although a filing cabinet was purchased by the Authority, it was never used. All records and correspondence are piled up on a couple of chairs making it difficult to locate certain records. It is recommended that this situation be set up in accordance with regular business standards.

Title V Prepaid Rent: It was noted that one tenant had paid an extra month's rent and moved out on the first day of the month for which he had paid. Another tenant moved in the same day and also paid the month's rent. It is understood that the overpayment will be refunded at an early date.

Permanent Financing: Subsequent to the date of this audit, it was noted that arrangements were completed for the permanent financing of the Chapter 200 Project. In this connection it was noted that this financing was in the total amount of \$272,000.00 at the rate

of 1 3/4% per annum. It is also understood that a State subsidy in the maximum amount of 2 1/2% will be paid by the Commonwealth. This entire matter will be audited in connection with the next annual examination of this Housing Authority.

NORTH ANDOVER HOUSING AUTHORITY

REPORT No. 51-H-39

General: This examination was initiated on November 6, 1950. On that date it was noted that the books pertaining to Management Accounts had not been opened and it was necessary to suspend the audit of these records until December 4, 1950.

It was further noted that certain cash transactions were recorded in both the cashbook and the journal. It is suggested that all cash transactions should be recorded in the cash book only.

Deposit on Plans: It was noted that forfeited deposits for plans and specifications in the amount of \$150.00 has been received by this Authority from the architect. This amount has since been set up as an undistributed credit. As these deposits have been declared forfeited, they should have been credited to the Development Costs, thereby reducing that total. As this Authority is now in the Management stage, this item should be closed.

Salary of Bookkeeper: Although the employment of a bookkeeper for the Authority has been approved by its members, no specific salary is mentioned in the minutes. It is, therefore, recommended that the amount being paid the bookkeeper be recorded in the minutes of an Authority meeting so that the record may be clear.

Safekeeping of Records: It was noted that the office records and files are not being properly filed in a cabinet, and it is suggested that some type of steel files or cabinets be obtained for their custody.

Signing of Change Orders: It was noted that Change Order No. 2 in the amount of \$195.00 did not bear the signature of the general contractor. It is suggested that necessary signatures be obtained in all instances.

Tenants' Leases: It was noted in certain instances that the dates of occupancy as indicated on tenants' leases and the dates of actual occupancy did not agree. This matter was brought to the attention of the proper personnel, and the necessary adjustments are being made.

Insurance Policies: The insurance policies for positions bonded and risk money and securities were not available at the Authority's office for audit in connection with this examination. It is suggested that these policies be obtained for the Authority's files at the earliest convenience.

Insurance Payment: It was noted that insurance policies for terms of three and five years which were paid during the initial operating period were entirely charged to Development. This cost of insurance, if prorated, would have reduced the Development Costs in a substantial amount.

Permanent Financing: It was noted that this Authority went into so-called "Permanent Financing" as of October 1, 1950, by the issuance of bonds in the amount of \$234,000.00. These bonds were issued after competitive bidding at the lowest net interest cost bid of 1.74101%. The audit of the application of the costs, etc., together with related subsidy payments, will be made at the next examination of the accounts of this Authority.

It was further noted that the Management Accounts for the initial operating period were closed on September 30, 1950 and new accounts under Permanent Financing were opened as of October 1, 1950.

Working Capital: It was noted that Working Capital in the amount of \$2,896.69 was included as part of the Development Costs. Working Capital, as defined in the Manual of Accounts, should be a round off figure for the issuing of permanent bonds in the amounts of \$1,000.00. Therefore, it would seem that the amount of permanent bonds issued in this case might have been reduced by \$2,000.00.

GLOUCESTER HOUSING AUTHORITY

REPORT No. 51-H-40

General - Books of Accounts: The financial transactions of this Authority were en-

tered on the accounts by both the Housing Manager and a private accountant prior to July 1950. Since that date, they have been recorded by a bookkeeper and the private accountant.

Discounts not Realized: Several instances were noted of discounts not being realized due to the fact that certain bills were not approved for payment by the members of the Authority in time to take advantage of the discount terms.

Project Inspection - 200-1: While making a routine visit to the Riverdale Park Project,* it was noted that there was water seepage in the cellars of about fifteen buildings covering sixty dwelling units.

Special Account: This account represents a grant to this Housing Authority by the City of Gloucester to meet special or unusual items and preliminary expenses in developing a new project. The transactions in this account were examined from February 1, 1950 to October 31, 1950.

CAMBRIDGE HOUSING AUTHORITY

REPORT No. 51-H-41

General - Books of Account not Current: This audit was initiated on November 14, 1950. It was noted as of that date that the various books of account had not been entered currently. In this connection, the status of the records was found to be as follows for the various projects:

<u>Project</u>	<u>Cash Receipts and Disbursements</u>	<u>General Ledger</u>
VN 19100 - Administration	Current	January 31, 1950
*Chapter 372 - Development	Current	March 31, 1950
Project 200-1 - Development	Current	October 31, 1950
Project 200-1 - Administration	Current	October 31, 1950
#Project 200-2 - Development	Current	June 30, 1950
Project 200-3 - Development	Current	June 30, 1950
Project 200-4 - Development	Current	June 30, 1950
Project 200-5 - Development	Current	April 30, 1950
Pay Roll Account	Current	None Established
Revolving Fund	Current	May 31, 1950

* Originally occupied in July 1950)

Originally occupied in June 1950)

" Originally occupied in October 1950)

There had been no books of account opened.

No books have yet been opened on the Development Accounts for Project 200-6.

The books of account were finally brought into a current condition after causing a delay in the audit which was finally completed on February 7, 1951. The condition of the entries in the books of account on that date was as follows:

<u>Project</u>	<u>Cash Receipts and Disbursements</u>	<u>General Ledger</u>
VN 19100	January 1951	December 31, 1950
Chapter 372 - Development	Current	December 31, 1950
Chapter 372 - Administration	January 1951	December 31, 1950
Project 200-1 - Development	Current	October 31, 1950
Project 200-1 - Administration	January 1951	October 31, 1950
Project 200-2 - Development	Current	October 31, 1950
Project 200-2 - Administration	January 1951	October 31, 1950
Project 200-3 - Development	Current	October 31, 1950
Project 200-3 - Administration	January 1951	October 31, 1950
Project 200-4 - Development	Current	October 31, 1950
Project 200-4 - Administration	January 1951	October 31, 1950
Project 200-5 - Development	Current	None Established
Project 200-6 - Development	Current	November 30, 1950
Pay Roll Account	Current	October 31, 1950
Revolving Fund	Current	October 31, 1950
		January 31, 1951

It was noted that an accountant was engaged by the Authority subsequent to the audit date, it was also noted that he has not as yet been properly instructed in his duties.

It is hoped that hereafter this individual will be able to assist the personnel in bringing up and keeping the records on a much more current basis.

General - Reciprocal Accounts: It was noted that several of the so-called reciprocal or contra accounts were not in agreement. In many cases where a receivable was set up on one set of records, the comparable payable was not set up on the related set of accounts. This practice resulted in an understatement of costs and expenses in certain projects. These items include the following:

(1) The account for Accounts Receivable on the Revolving Fund books for the Magazine Street Site has no balance, yet the reciprocal account on the Magazine Street books, Accounts Payable - Revolving Fund, shows a debit balance of \$354.15. These accounts have been inactive since January 1950 and no action has been taken to date to correct them. The variance was found to be due to the fact that charges in the amount of \$574.78 were made on the Revolving Fund books that were not set up as liabilities on the Magazine Street books in June 1949. In September, credits aggregating \$220.63 were made to the Revolving Fund books. These were not posted to the reciprocal account, consequently the variance.

(2) The account, "Accounts Receivable - Woodrow Wilson Court," shows a debit balance of \$1,622.47. The reciprocal account, however, shows a credit balance of \$1,134.23, a variance of \$488.24.

In September of 1949, a credit was entered to the "Accounts Payable - Revolving Fund on the Woodrow Wilson Court" books. The charge was not reflected on the Revolving Fund account. In February a charge was made on the Revolving Fund books in the amount of \$667.77. The liability account on the Woodrow Wilson Court books was therefore, not properly credited.

(3) The account, "Accounts Receivable - Rindge Avenue" books, shows a debit balance of \$759.82, while the reciprocal account shows a credit balance of \$71.25. In December 1949, a duplicate reimbursement was made to the Magazine Street project in the amount of \$683.32. The credit for this receipt is reflected on the Magazine Street books, while the charge was made to the liability account, Accounts Payable - Revolving Fund. In October 1950, a charge of \$5.25 was made on the Revolving Fund books. This amount was not set up as a liability on the Rindge Avenue books.

The foregoing three items are only representative of the shortcomings in these respects. Many other instances were noted. It is recommended that these accounts be reviewed and the various funds be properly adjusted and/or reimbursed. It is further recommended that all reciprocal accounts be reconciled each month to prevent recurrences. Study should also be given to the possible confinement of the reciprocal accounts to the Revolving Funds and the Pay Roll Accounts.

General - Furniture and Fixtures: In the previous audit report, it was recommended that the costs of office furniture and fixtures be prorated among the various State and Federal projects. While an attempt has been made to carry out this recommendation, it was noted that the costs have been prorated almost entirely among the State projects. The analysis of the "Furniture and Equipment" account showed that from February 1949 through October 31, 1950, furniture totaling \$3,350.30 was purchased. Of this amount, \$2,833.94 was charged to the various State projects. It would seem that a more equitable distribution of these charges could be made.

It was further noted that the Authority apparently has no insurance in effect on the Furniture and Equipment. It is suggested that steps be taken to secure the necessary insurance coverage.

General - Investments: Attention was called in the previous audit report that this Authority had excessive uninvested cash funds on hand. It was, at that time, recommended that some of these funds be invested in United States Treasury Bills, in compliance with a State Housing Board directive dated September 21, 1949. In spite of the fact that the Authority has maintained cash balances in the various Chapter 200 projects, totaling at one time to \$4,568,798.87, they have not availed themselves of a source of income which might have resulted in a reduction in the development costs of the various projects. In this connection, attention is called to the fact that subsequent to this audit date, the Authority invested \$2,491,525.00 which in ninety days will yield income in the amount of \$8,475.00.

Continued compliance with the aforementioned directive from the State Housing Board will naturally effect additional income of this nature.

General - Change Orders: It was noted in the previous audit report that additions and deductions from contracts occasioned by Change Orders were not reflected in the control account, "Contract Awards". As no change has been made in this procedure, it is again recommended that these items be posted to this account in order to correctly show the total liability on the various contracts.

General - Financial Statements: It again was noted that the financial reports of this Authority required by the State Housing Board had not been prepared or submitted, as suggested in the previous audit report.

Steps should be taken to immediately prepare and submit the required reports which are presently in default.

General - Expenditures: The Manual of Accounting Procedures, issued by the State Housing Board, provides for the establishment of a Revolving Fund for the purpose of making expenditures which are applicable to more than one project. Such a fund has been established, but in spite of this, it was noted that disbursements of this nature have been made from the funds of the various projects. This has the effect of creating additional Revolving Funds. It also appears to violate the terms of the various Fund Agreements for the several projects. While the appropriate funds are suitably reimbursed, the additional bookkeeping entailed is obviously unnecessary. It is, therefore, suggested that all disbursements applicable to more than one project be made only from the Revolving Fund and that this fund be handled in the manner prescribed in the Manual of Accounting Procedure of the State Housing Board.

General - Pay Rolls and Pay Records: In this connection it was noted that the Authority had failed in several instances to note officially the beginning dates and wages to be paid to the various employees.

General - Time Records: It was noted that in several instances, pay rolls had been prepared without complete time records being available. It was further noted that time records on some employees were never given to the employee responsible for the preparation of the pay rolls, even though they were available. It is suggested that complete approved time records be made a prerequisite for the payment of wages of all employees who appear on the pay rolls.

General - Retroactive Mileage: It was noted that at a meeting of the Authority on October 24, 1950, it was voted to give employees a mileage allowance of six cents per mile. The Executive Director informed the members that it was necessary for certain employees to use their cars during the course of the day while conducting business of the Authority. It was also voted that certain employees be compensated at the same rate, retroactive to the time their cars were first used on official business.

General - Employees' Retirement Deductions: In this connection it was noted that deductions are made from employees' salaries as contributions to the Cambridge Retirement System, whether or not they are members of the Retirement System. An analysis of the Pay Roll Account from March 2, 1950 showed that a net balance of \$2,041.12 had been deducted from various employees which was included in the cash balance of the Pay Roll account. It was noted that \$98.33 of this balance was due the Revolving Fund, inasmuch as the payment of the first week's deductions from the Pay Roll account was made from the Revolving Fund. It was also found that refunds of deductions amounting to \$9.37 had been made from the Pay Roll account. These deductions were made prior to the establishment of the Pay Roll account and should have been paid from the Revolving Fund. It is, therefore, suggested that the Revolving Fund be reimbursed from the Pay Roll account for the net amount.

Due to the fact that no records were maintained, which reflected the liability of the Authority to the various employees who were not members of the Retirement System, the pay rolls were further analyzed and a trial balance prepared. This trial balance showed that a total of \$6.60 had been paid into the Retirement System even though no pay roll deductions had been made. It was noted that \$1.32 of this amount was adjusted subsequent to the date of audit. It is suggested that the balance of \$5.28 be forthwith adjusted also.

It was also noted that deductions for a certain employee totaling \$6.60 had been made in May 1950. This employee's services were terminated that month, yet the amount indicated is still included in the balance. It is suggested that this amount be returned directly to this individual.

It is further suggested that adequate records be maintained, showing the liability of the Authority to the various employees, from whom deductions for the Retirement System are made, but who are not yet members of the City's Retirement System.

Project VN 19100 - Tenants' Accounts Receivable: It was noted that the net balance of this account was \$5,571.14 on the audit date. An analysis of this balance showed that the total rents outstanding amounted to \$6,426.69. Verification notices were sent out on a test basis and the replies indicated that some of these balances were incorrectly stated. This was due to the fact that the project manager failed to inform the cashier-bookkeeper when certain tenants vacated premises. Consequently, excess charges were being put through the tenants' ledger and control accounts. The project manager submitted for audit purposes a listing of all the units indicating whether or not they were occupied and the dates when units were vacated. From this list, it was noted that rents aggregating \$301.62 were included in the balance that should not have been in this category. It is important that more accurate vacancy records be maintained.

A trial balance of the tenants' ledger also indicated that items aggregating \$1,406.71 were included, but were for rents charged while this project was under Federal supervision. It was also noted that these balances have been outstanding for various lengths of time, the oldest since February 1947. Due to the fact that these units are to be demolished early in 1951 by order of the City Council, it is recommended that these accounts be reviewed for the purpose of determining the amount that should be charged off. Steps should also be taken to enforce the collection of the balance.

Project VN 19100 - Tenants' Security Deposits: It was noted that the book balance of this account was \$1,440.00. A trial balance of the account, however, indicated a balance of \$1,464.00 and was in agreement with the bank statement. It was understood from the Authority's accountant that the Federal auditors had located \$20.00 of the difference which had been deposited in the Security Deposit account instead of in the Operating Account of Newtowne Court, a Federal project.

The balance of \$4.00 was accounted for by the fact that payment was stopped on a refund check in that amount and had not been added back to the control accounts.

It is recommended that the necessary adjustments be made.

Project VN 19100 - Sundry Accounts Receivable: It was noted that the balance of this account was \$11,636.13. Of this amount, \$11,549.16 represented the deficit from operations from the inception of the project to January 31, 1950. The practice of setting up a deficit as an asset is questioned.

Chapter 372 - Grant from City of Cambridge: In spite of the recommendation in the previous audit report with reference to an amended application for funds, the Authority failed to make a request for sufficient funds to complete the development of this project. As of the date of audit, the Authority had a cash balance in the bank of only \$90.79. In this connection, it was noted that there is owed the Rindge Avenue Development Fund \$875.00 for land at Lakeview Avenue and \$185.77 for Borings and Test Pits. In addition to these amounts, the Authority has agreed to pay the City approximately \$900.00 for land. Completed contracts total \$2,635.00 and contract retentions aggregate \$4,375.84. It was further noted that work has been done by one of the contractors, which it is estimated will cost \$1,455.50, for which no change order was issued. These apparent liabilities aggregate \$10,427.11, but are still subject to minor adjustments.

It is also understood that the contractor intends to charge the Authority interest on the amount withheld from the date the units were accepted and for the cost of insurance which was not required by the specifications, but which was subsequently required by the Authority.

It is understood that the State Housing Board refused to approve additional funds for this project pending the disposition of the surplus panels for the two additional houses which are stored at the City pumping station, and pending the disposition of some canvases which have been loaned to the City. It is suggested that these items be disposed of so that the objection of the State Housing Board will be withdrawn and the approval necessary will be forthcoming.

Chapter 372 - Unauthorized Work Performed by Contractors: It was noted that the Authority had additional work done by the contractors in addition to contract specifications. This has increased the cost of this project in the amount of \$1,455.50 over the \$95,000.00 authorized by the State Housing Board. It is strongly urged that the Authority refrain from

encumbering this account any further until the State Housing Board authorizes an increase in the development cost for this project.

Chapter 372 - Insurance Coverage: It was noted that this project was only insured in the amount of \$70,000.00 for fire and extended coverage. As of date of audit the cost of the structures and equipment amounted to \$74,097.51. Items included in the previous report as proper charges to the structures and equipment account had not yet been transferred to this account and should increase these costs by \$24,021.52. It is suggested that additional insurance coverage be obtained to cover the entire investment.

Chapter 372 - Administration Fund Disbursements: The propriety of certain disbursements is questioned. These items include the following:

On October 24, 1950, a disbursement was made in the amount of \$508.78 to the City of Cambridge Water Department for the installation of the water supply at the project. Attention is directed to page 21 of the Contract Specifications under the heading, "The following work will be done by others at the expense of the Contractor", which reads in part as follows:

"The Cambridge Water Department will furnish and install a 3/4" water service from the mains in the streets to a point within the foundation walls of each house, including necessary trench excavation and backfill, at a total cost of \$1,100.00."

On the same date, a disbursement was made in the amount of \$19.50 for adjusting hot water heaters at 4 units and ranges at 2 units. Attention is directed to the plumbing specifications which read, in regards to the Domestic Hot Water Heater, in part as follows:

"Contractor shall furnish and install all necessary piping and fittings complete and operating perfectly."

Attention is also directed to the General Guaranty in the General Conditions which calls attention to the liability of the contractor for items of this nature.

Attention is further directed to Section 8 of the specifications for the Gas Ranges, which reads as follows:

"The Contractor shall place the equipment in operation and make all necessary adjustments for proper performance."

It is apparent that these items should have been taken care of by the contractor in accordance with the regular contract specifications and it is, therefore, suggested that steps be taken to arrange for reimbursements of the amounts so paid.

Chapter 372 - Excess Millwork and Trim: It was noted that the Authority advertised bids on the sale of a load of excess lumber that was received when the homes were purchased from the Reconstruction Finance Corporation. It was understood that the bids received were below the value placed on this material, consequently they were rejected. The copies of the bids were not available. This lumber is left in storerooms in the Federal project and is being used as needed in the various projects.

Chapter 372 - Sale of Surplus Panels: It was noted that on June 16, 1950, the 67th Fighter Wing, Massachusetts Air National Guard submitted a bid in the amount of \$825.00 for the surplus panels which were stored at Westfield. The cash records indicate that on July 11, 1950, a check for half this amount, \$412.50, was paid to this Authority. A letter of transmittal accompanying this check requested that payment be deferred for a few weeks pending allocation of an additional appropriation to cover the balance due. This balance had not yet been received by the Authority to the date of audit. It is recommended that this balance be set up as an Account Receivable and that steps be taken to collect the amount outstanding.

Project 200-1 - Exterminating Services: It was noted that the Authority is paying a monthly fee of \$17.00 for exterminating services, an average of approximately twenty-five cents per unit. No contract for these services was made. It was learned that in 1946 bids were obtained for like services on the Federal projects. The successful bidder subsequently was told to perform similar services on this project. In this connection, it was

noted that the Authority is charged at the rate of five cents a unit for the Federal projects ten cents a unit less than the amount charged on the State-Aided project.

Project 200-1 - Management Resolutions: Although this project was initially occupied in June of 1949, it was found that the management resolution required by the Contract for Financial Assistance had not been submitted to the State Housing Board for approval. Letters from both the Director and the Chief of Operations of the State Housing Board stressed the importance of the submission of this form. It was understood that action will be taken on this resolution in the near future, at which time resolutions will also be submitted on Projects 200-2, 3, and 4.

Project 200-1 - Deposits on Plans and Specifications: It was noted that deposits on plans and specifications totaling \$120.00 were entered in the Administration Fund. These deposits were forfeited by various contractors when they failed to return the loaned plans and specifications. It is suggested that this amount be transferred to the Development Fund to partially offset the cost of these plans and specifications.

Project 200-1 - Accounts Receivable: It was noted that many accounts receivables on the Development books include amounts that have been pending for several months. The account, Accounts Receivable - Rindge Avenue, had a credit balance of \$683.32. This balance was due to a duplicate reimbursement in December 1949 from the Development Fund of Project 200-2. It is recommended that the Development Fund of Project 200-2 be reimbursed, correcting this balance.

The account, Accounts Receivable, Administration Fund - Project 200-1, had a balance of \$264.98. In July 1950, a journal entry was made to adjust the central office pay roll expense. The entry made at that time was as follows:

Dr. Accounts Receivable - Walden Street, Project 200-3	\$264 98	
Cr. Development Costs - Pay Roll Executive		\$264 98

The debit was not posted, but the credit was entered on the Development Account. Reimbursement was made by the Walden Street Development Fund in October 1950, but the cash was deposited in the Administration Fund and was set up as "Accounts Receivable - Administration Fund" on the Development books. Because books were not currently posted, this had been carried since that time without adjustment. It was also noted that the original charges for the distribution of the central office pay roll were made on the Administration books, understating the Development Accounts and overstating the Expense Accounts. It is, therefore, suggested that appropriate adjusting journal entries be made.

Project 200-2 - Employees' Retirement Deductions: It was noted that the balance of this account on the date of audit was \$120.25 and had been carried since November 30, 1949. The employee from whom these deductions were made is now being paid from the regular pay roll account. Although this employee is not yet a member of the Retirement System, it was understood that he will be eligible to become a member soon. It is suggested that this money be transferred to the Pay Roll Account for control purposes.

Project 200-2 - Tenants' Accounts Receivable: It was noted that the balance in this account was \$846.95, and the trial balance of the tenants' accounts receivable ledger totaled \$837.12, a difference of \$9.83. This difference was due to an error in addition on the rent roll and to making an incorrect pro rata charge in the amount charged to a tenant in October 1950.

It was also noted that it is the practice to charge returned checks to sundry accounts receivable rather than the tenants' accounts receivable control and subsidiary accounts. It is recommended that all returned checks be charged immediately to the tenants' accounts, thus eliminating the possibility of delinquent accounts showing incorrect balances.

Project 200-2 - Contract for Architectural Services: It was noted that the architect's contract was not in the form prescribed by the Chairman of the State Housing Board and that it had not been approved by the Chairman of the State Housing Board as is required by Section 4, Paragraph (b), of the Contract for Financial Assistance, which reads in part as follows:

"The Authority agrees that the form of architect's contract shall be that prescribed or approved by the Chairman, and that such contract shall be subject to the approval of the Chairman."

In discussing this matter with the Executive Director, it was learned that the contract was originally made for the development of this project under Chapter 372. This project was abandoned in August 1948, due to the zoning laws involved. Application was later made to the State Housing Board for funds to develop this project on another site. It was also understood that because the Architectural Contract form approved by the Chairman of the State Housing Board, was not available, the Director of the State Housing Board agreed to allow the use of the existing contract. In this connection the following exchange of correspondence is shown:

C THE COMMONWEALTH OF MASSACHUSETTS
O State Housing Board
P 18 Tremont Street, Boston 8
Y

September 10, 1948

Mr. -----, Chairman
Cambridge Housing Authority
1416 Massachusetts Avenue
Cambridge, 38, Massachusetts

Dear Mr. -----:

At a meeting on August 9, 1948, held at this office, with Mr. -----, Executive Director of the Cambridge Housing Authority, Mr. -----, Architect, and Mr. -----, Mr. -----'s Associate, various matters were discussed pertaining to the preparation of Part II of the Application for Financial Assistance for development of a project of 110 dwelling units to be located on Rindge Avenue on land now owned by the New England Brick Company.

It was agreed at this conference that typical dwelling unit and other similar plans already prepared by Mr. ----- for a project which was to have been built on a site on Vassal Lane would be acceptable to supply the information requested in Paragraph 1:03 on Page 3 of Chapter 1, Part II of the Application for the Rindge Avenue Project.

Also at this conference, we supplied Mr. ----- with three blank copies of the Application for Financial Assistance, Part II, to be filled out and filed with us in duplicate.

In addition, we gave Mr. ----- five copies each of the following contract and proposal forms for use in connection with the development:

SHB Form #2	Contract for Architectural Services
" " #2A	Annex "B", "C", "D", and "E" giving the scale of fees for Architects, Site Engineers, and Landscape Architects
" " #3	Proposal for Appraisal
" " #4	Proposal for Survey
" " #5	Contract for Legal Service
" " #6	Proposal for Furnishing Title Abstracts Etc.
" " #7	Proposal for Wash Borings

If you find that you need additional assistance in filling out the application, please be assured that we stand ready to furnish it.

Very truly yours,

/s/ -----
Director

THE COMMONWEALTH OF MASSACHUSETTS

C
O
P
Y

State Housing Board
18 Tremont Street, Boston, 8

December 8, 1948

Cambridge Housing Authority
1416 Massachusetts Avenue
Cambridge, 38, Massachusetts

Attention: Mr. -----, Chairman

Gentlemen:

Reference is made to your Part II conference on Cambridge 200-2, 200-3 and 200-4, held in this office September 9, October 22, and October 14 respectively with our Development Division, at which time you received standard SHB forms, #2 Contract for Architectural Services, #3 Proposal for Appraisal, #4 Proposal for Survey, #5 Contract for Legal Services, #6 Proposal for Title Abstracts, and #7 Proposal for Wash Borings.

It is suggested that in order to avoid delay those of the above forms that are applicable to your projects be executed during the preparation of Part II, and processed in accordance with furnished instructions.

It is to be understood that these contracts will not become effective until approval of Part II and execution of the Contract for Financial Assistance.

Thank you for your cooperation.

Very truly yours,

/s/ -----
Director

It is suggested that the State Housing Board be contacted for the necessary approval on this contract. Inasmuch as there appears to be a disagreement of the amount to be paid the architect, these necessary approvals should become part of the available records.

Project 200-3 - Sundry Accounts Receivable: The balance of this account on date of audit was \$65.15. The analysis of this account indicated that the balance consisted of a charge of \$10.00 for a counterfeit bill and a charge of \$55.15 for a returned check due to insufficient funds. The practice of setting up these items as accounts receivable is questioned. The returned check should have been charged to the Tenants' Accounts Receivable control account and the counterfeit bill should have been charged off as a tenancy loss.

Project 200-3 - No Administration Fund Agreement: It was noted that no agreement had been made with the bank. Written approval as to the acceptability of any depository must be obtained from the Chairman of the State Housing Board, prior to the deposit of any funds received. Funds have been deposited by the Authority for the month preceding the date of audit. It is suggested that the necessary agreement be drawn up and forwarded to the State Housing Board for the proper approval.

Project 200-3 - Architect's Fee: In this connection, it was noted that the architect is charging the Authority on the basis of change orders as well as on the original contract award. The contract specifies that the architect will only be entitled to additional compensation on a major revision of plans. It is possible that due to this method, a substantial overpayment will result. It is, therefore, suggested that the Authority notify the architect to submit invoices in accordance with the terms of the contract. It is further recommended that before final payment is made the invoices be forwarded to the State Housing Board for review.

Project 200-3 - Payments to General Contractor: It was noted that the payment made to the general contractor on October 26, 1950 included an item in the amount of \$15,368.07 for work performed under a Proceed Order in connection with the installation of a drainage

system. It was understood that this was a partial payment as the cost of this work will total approximately \$27,000.00. It was noted that the Chairman of the State Housing Board had agreed that partial payments could be made to the contractor. It was, however, stipulated that a Change Order should be issued to cover all partial payments and when the work was completed, a final Change Order would be issued to supersede those previously issued. As this procedure had not been followed, it is recommended that the requirements of the State Housing Board be followed.

Projects 200-4, 5 and 6 - Liability on Contracts for Ranges and Refrigerators: It was noted that the liability of the Authority on the contracts for ranges and refrigerators for projects 200-4, 5 and 6 was not reflected on the records. This has caused the liabilities of the various projects to be understated, as follows:

<u>Project</u>	<u>Amount Understated</u>
200 - 4	\$36,226 92
200 - 5	7,308 94
200 - 6	31,778 00

The Manual of Accounting Procedure of the State Housing Board provides for the recording of all commitments exceeding \$300.00. It is suggested that the necessary adjusting entries be made.

Project 200-5 - Development Cost: It was noted that although this project was less than 7% completed to date of audit, the final development cost will undoubtedly exceed the maximum development cost of \$575,000.00 as established by Section 2 of the Contract for Financial Assistance, as the construction contract award alone totals \$571,611.70. In addition to this amount the architect's fee will be in excess of \$30,000.00 and the cost of the land is expected to exceed \$30,000.00. It is, therefore, recommended that the Authority take immediate steps to have the Contract for Financial Assistance amended in order to increase the maximum development cost.

It was further noted that the funds for Administrative Costs were eliminated by the State Housing Board because the amounts provided in previous Contracts for Financial Assistance were more than sufficient to cover the Administrative Costs of the five State-Aided Housing Projects. In this connection it was noted that a total of \$1,774.03 of the funds of this project have been disbursed for Administrative Costs to date.

Revolving Fund - Purchases of Materials in Returnable Containers: It was noted that the Authority purchases various items in drums for which the vendors require an advance deposit. The entire amount is charged to an inventory account and subsequently to expense accounts of the various projects. This procedure causes the various expense accounts to be overstated. The actual amounts that the Authority has on deposit with the vendors is not properly reflected.

BROCKTON HOUSING AUTHORITY

REPORT No. 51-H-42

Chapter 200 - Error on Bank Statement: It was noted that the bank of the Brockton Housing Authority had charged in error to the Development Fund a check made out to the Administration Fund for \$17.13. This check represented rent due the Authority. During the course of the audit steps were being taken to adjust this variance.

Chapter 372 - Surety Bond: It was noted the clerk who handles the cash receipts for the Chapter 372 units was not bonded. Steps were taken during the progress of the audit to bond this employee in the amount of \$1,000.00.

Chapter 200 - Development Cost Expenses Paid from Administration Fund: It was noted that the Authority had paid \$3,238.96 for Development Cost bills out of the Administration Fund Cash. In October 1950 authorization was received from the State Housing Board for a transfer of \$7,000.00 from the Administration Fund to the Development Fund. Subsequent to audit the Administration Fund was reimbursed in the amount of \$3,238.96 from the Development Fund. The attention of the Authority is called to the fact that Development Costs should be paid only from the Development Fund.

TAUNTON HOUSING AUTHORITY

REPORT No. 51-H-43

Title V - Surplus: It was noted that there was a substantial balance in the surplus of

this account. It was learned in this connection that the Authority has notified the City of Taunton government of this situation. No part of the surplus has as yet been turned over to the City and will not be until the matter of allocating part of this fund toward the payment of a so-called "Master Plan" is settled with the City officials. This plan is requested for a redevelopment project which is now being contemplated in the City, and is now apparently the subject of a study by all concerned parties.

Chapter 372 - Operating Account: As of the date of this audit the project known as "Building No. 26" consisting of two units, was still under Federal supervision in accordance with Contract VN-19147 with the Public Housing Administration.

Transactions in the Chapter 372 Operating Account affecting the "Building No. 26", project were checked to such an extent as was deemed necessary to prepare necessary statements for the entire Chapter 372 project.

This Authority had initiated steps to have the Federal Government relinquish its rights to the "Building No. 26" project.

Chapter 372 - Accrued Ground Rents: It was noted that accrued ground rents in the amount of \$3,325.00 were being carried on the books as of November 30, 1950. This amount represents ground rents accrued to December 31, 1949 when this particular project was relinquished by the Federal Government.

As of the date of audit, this Authority had been unable to ascertain to whom this ground rent is due.

In connection with ground rent, since January 1, 1950, it was noted that the Federal Government had canceled its permit for use of the land upon which the Chapter 372 project is located and had advised the local Authority to contact the Commonwealth of Massachusetts - Department of Mental Health for a permit to use the land after December 31, 1949.

It is understood that this matter has been turned over to the legal counsel of this Authority for whatever action is necessary.

Chapter 372 - Security Deposits: It was noted that the reconciliation of the Security Deposit bank account indicated an overage of \$10.00. This was due to the fact that a security deposit for \$10.00 which had been deposited in the bank had not been recorded.

It was also noted that the trial balance of the Tenants' Security Deposits was \$10.00 greater than the Security Deposit bank account balance. This was due to the fact that the Security Deposit Fund was applied to a tenants' rent account erroneously.

These items were brought to the attention of the proper personnel and it is understood that the necessary adjustment will be made.

Chapter 372 - Fire Insurance: It was noted that the Chapter 372 project was not protected by fire insurance as of the date of audit. This matter was brought to the attention of the Executive Director of the Authority.

Chapter 372 - Reduction in Number of Units: During the period under audit the number of units available for occupancy was reduced from 76 to 70.

This arrangement was necessitated by a desire in the part of the Authority to provide larger apartments, that is, of 5 and 6 rooms each.

Project 200-1 - Underpayment to Contractor: It was again called to the attention of the local Authority that because of errors in the computation of the periodical estimates for partial payment, there had been an underpayment to the contractor, with a corresponding undercharge to the Development Costs in the amount of \$8,598.92 on Periodical Estimate No. 4.

In this connection it was noted that the latest Periodical Estimate for Partial Payment (No. 11), bearing the necessary approvals, indicated that work performed to date totaled \$1,099,527.56, yet the records of this Authority show that only \$1,089,428.64 had been paid to the contractor, while \$1,500.00 had been retained. The difference is therefore \$8,598.92.

It is advised that this matter be adjudicated as expeditiously as is possible.

Project 200-1 - Change Orders: It was noted that Change Order No. 13, approved August 3, 1950, in the amount of \$1,390.55 was not reflected in the contract award account. It is suggested that all change orders should be posted currently so that this account will at all times reflect the correct status of the construction contract.

Project 200-1 - Payment of Administration Expenses from Development Fund: It was noted that as of the date of audit Administration expenses in the amount of \$1,336.08 had

been paid out of the Development Fund.

As this practice is contrary to the terms of the Contract for Financial Assistance, it is suggested that the necessary reimbursement be made as soon as is practicable.

Project 200-1 - Payment of Project 200-2 Expenses from Project 200-1 Administration Fund: It was also noted that certain expenses of Project 200-2 in the amount of \$13.71 had been paid out of Project 200-1 Administration Fund.

This practice is obviously contrary to the terms of the Contract for Financial Assistance.

In further connection with this payment it was noted that, although the \$13.71 had been set up as an Account Receivable on the books of Project 200-1, no corresponding Account Payable had been set up on the books of Project 200-2.

EVERETT HOUSING AUTHORITY

REPORT No. 51-H-44

Administration Fund and Prepaid Rents: It was noted that the accountant for the Authority entered the cash receipts by posting from the bank statement. In this connection it was noted that a deposit in the amount of \$1,276.50 was deposited on November 30, 1950, but did not appear on the November bank statement, resulting in an error of the Authority's cash position as of that date. It also creates an understatement of the Prepaid Rent account. It is recommended that cash be posted directly upon its receipt to the original books of record.

Accounts Receivable: The books of the Authority indicate an account receivable in the amount of \$96.00 on account of tenants' rent. It is understood that this tenant has been evicted and has made an agreement with the Authority to pay this amount in small installments. As yet no payment has been received from this individual. It is suggested that the Authority use this former tenant's security deposit of \$25.00 to reduce this account.

In one instance it was noted that the Authority paid \$4.64 for moving furniture from a unit when it was determined that the individual concerned was ineligible to be a resident of the project. In this particular case it was noted that a security deposit had been returned. It is suggested before security deposits are returned that all possible deductions be determined and deducted.

Prepaid Rent: It was noted that the Authority shows \$40.00 as prepaid rent from a tenant who never actually occupied a unit. The lease for the tenant was effective May 15, 1950, and the unit while available was never occupied. It is suggested that the Authority determine whether this rent should be forfeited or whether it should be returned.

Development Fund: It was noted that the Development Fund is owed \$6.40 for withholding taxes which were chargeable to the Administration Fund. It is suggested that the Development Fund be reimbursed.

Development Costs: The account Site Improvement was charged in October in the amount of \$263,930.02 and in November for \$5,766.38. These amounts were transferred from the account Structures and Equipment. No journal voucher could be found explaining the reason for the transfer. It is suggested that journal vouchers be used to reflect and explain any transfers on the books.

Miscellaneous Income: On December 30, 1949, the Everett Housing Authority acquired title to land known as the Coburn Estate to be used for the purpose of building an additional Housing project. This project was turned down by the State Housing Board. The Authority now hopes to build a Federally-aided project there, although the City of Everett has not yet agreed.

At the present time, the Authority is renting portions of the land to two concerns at the following rentals:

- A. \$35.00 per year
- B. 50.00 per month

This income was not reflected on the books of the Authority for the period under audit. In December, after this audit period, the Attorney for the Authority made the decision that this income, then totaling \$480.00, should be deposited in an escrow account. The reason given for this was that in the event the title to the land should revert back to the City, the income derived during the period the Authority held title would also be reverted.

It is suggested that this income be properly reflected on the books and that the Au-

thority be allowed to use it in connection with any expenses incurred by reason of their attempts to get approval of the use of this land for a housing project. In the event that this land is returned to the City, it seems reasonable that any income derived while the Authority had title should be retained by the Authority.

BOSTON HOUSING AUTHORITY

REPORT No. 51-H-45

GENERAL

Bank Reconciliations: An important feature of the control of cash is the monthly reconciliation of closing monthly balances indicated by the bank statements with the corresponding general ledger cash accounts. It was noted, however, that such reconciliations are not made for extended periods. In this connection it was noted that the bank statements for the funds of Project 200-1 Management, and Project 200-4 Management had not been reconciled for the last two months of the audit period.

Attempts were made by the accounting section to reconcile the Temporary Housing Management bank statement, but because satisfactory records from the project offices were not available a correct reconciliation had not been made since July 31, 1950.

It is suggested that the accounting section take greater care in the exercise of this important function.

Outstanding Checks: The reconciliations of the bank accounts of the 372 Permanent Housing Management Fund and the Revolving Fund indicated checks which had been outstanding for longer than one year. In order to develop a more effective control of such items, the Authority should initiate the practice of stopping payments on checks not presented for payment one year after their issue date.

Pre-Numbered Forms: The Authority uses standard check books furnished by the banks in all funds with the exception of the Revolving Funds. In some instances these check books were not pre-numbered by the printer. All checks should be pre-numbered in consecutive sequence so that they all may be easily accounted for. It is also suggested that consideration be given to having special checks designed and printed for the use of this Authority.

It is also suggested that the petty cash vouchers being used at the individual projects should be pre-numbered.

Development Funds: The Manual of Accounting Procedure issued by the State Housing Board instructs that there be one cash account in the general ledger for each fund with sub-accounts for each bank account when such fund has more than one bank account. As this directive has not been followed attention is called to it.

Inter-Fund Disbursements: In this connection, the previous audit report called attention to the following instruction in the Manual of Accounting Procedure issued by the State Housing Board:

"Costs incurred for expenses with respect to anticipated projects under future statutory projects, are not eligible disbursements from the Development Fund of an existing statutory project."

The Authority, however, still follows the practice of disbursing funds from existing projects for expenses incurred by anticipated projects.

It was noted that the Authority disbursed \$443.37 of 200-1 Development Funds for payment on a contract for Project 200-6, which was subsequently abandoned. This payment was obviously improper since the contingency clause in the contract provided that payment was dependent upon a contract for financial assistance being signed. It is therefore suggested that steps be taken to reimburse this fund.

Cash Balances: The cash balances reflected during the audit period in the development funds of Chapter 200 projects were in most instances far in excess of immediate requirements. The policy of investing excess funds in order to reduce the net interest costs was not put into effect until Project 200-8 funds were received. A more prudent financial policy would naturally have materially reduced the net interest charges on these projects.

It was also noted that Chapter 372 Permanent Housing Management receipts are allowed to accumulate during the year. At the close of the fiscal year a cash transfer of the surplus is made to the City of Boston. It was noted that the transfer for the fiscal year 1950 totaled \$508,641.58. It is suggested that as these funds accumulate, excess funds should either be

invested or transferred periodically to the City Treasurer, so that the City might benefit.

Postings in Books of Account: On the date of audit, the records of Projects 200-1 Management and 200-4 Management were two months in arrears in postings. The Temporary Housing Management records were five months in arrears in this respect. This, of course, delayed the progress of the audit of these records until they were currently posted.

Attention is also called to the fact that the records of the Temporary Housing Management account were not currently posted while the audit was in progress. It was therefore necessary to review all the detailed transactions concerning these accounts in order to satisfactorily complete the audit of these accounts.

Journal Vouchers: A review of the journal vouchers indicated that many were lacking in the necessary detail to comprehend the financial transactions. The importance of sufficient detail of these vouchers cannot be emphasized too strongly.

Purchasing: Under the present system, requests for purchases are transmitted from the projects to the central office for approval by the Supervisor of Management prior to the actual placing of the order by the Purchasing Agent. The purchases as ordered are then delivered directly to the particular project by the vendor. A receiving report, as evidence of the receipt of the goods, is then returned to the central office and is attached to the invoice prior to the approval for payment. It is suggested that a policy of centralization of purchase requests and receipts would appear to be a requisite in an organization of this size and scope. A central stores control would have the following advantages.

1. Provide a focal point for receiving and distributing the stores.
2. Furnish a guide to purchasing by the use of continuous inventory records with maximum and minimum requirements.
3. Avoid duplication of purchases with subsequent saving in administrative processes.
4. Tend to prevent careless handling and theft.
5. Supply a basis of estimating costs for budgetary purposes.
6. Provide against future shortages of materials and supplies.

Project Office Cashiers: The cashiers of the various project offices are apparently responsible for the proper posting and control of the tenants' individual ledger cards. They must also submit a monthly summary of all the transactions affecting these records to the central office for the posting to the general ledger control accounts.

These cashiers are presently classified for pay roll purposes as Management Personnel and come under the direction of the Supervisor of Management. Because the responsibility for the accuracy and proper maintenance of these records at the project offices appear to be an accounting function, it would appear to be more desirable to have the training, supervision and control of these employees in the Accounting Section.

Operating Budgets: It was noted that the State Housing Board refused to approve the operating budgets for the occupied Chapter 200 Projects as submitted by the Authority. The results of operations in this initial operating period will be reflected in the total development costs since it is the policy to have the income or deficit so transferred. Attention is drawn to the fact that the State Housing Board must certify to these costs before the permanent financing of the projects is entered into. The fact that these budgets are not approved will delay such certification.

Financing of Chapter 200 Projects: All of the Chapter 200 Projects were and are financed by the issuance of temporary notes. The Authority is presently negotiating with the Federal Public Housing Administration relative to the possibility of converting the 200-1 and 200-2 projects from State-aided to Federally-aided status. As of the audit date there had been no steps taken toward the permanent financing of Project 200-4, and the only other occupied Chapter 200 Project.

Pay Roll: A test check of the daily time reports to the pay roll ledgers indicated that certain employees are not reporting their actual time worked. The head of each department should ascertain that each employee under his direction submits necessary time reports.

A comparison of the checks drawn for the cash pay roll and the net pay roll to be paid by currency showed that occasionally the amount drawn was in excess of the cash required for pay rolls. It was learned that this excess was the amount of employees' deductions for hospitalization and sickness premiums. These funds, however, are held in the office safe until such time as the employee in charge of the pay roll makes the payment with currency.

for these deductions to the insurance company concerned. This procedure should be discontinued and the disbursements for these deductions should be made by bank checks.

Tenants' Accounts Receivable: The analysis of the Tenants' Accounts Receivable indicated that many of the balances due the Authority appear to be uncollectible. A periodic review of these accounts should be made and the worthless accounts submitted to the members of the Authority for authorization to be written off. The doubtful accounts should be transferred to a suspense account for easier control.

Change Orders: The examination of the approved contract change orders filed in the construction section showed that certain changes applicable to Projects 200-3, 200-5, and 200-7 had not been entered in the control records to the date of audit. These change orders are of material financial importance and it is suggested that the construction section should not delay in transmitting this necessary information to the accounting section so that the necessary entries may be made.

Purchase of Fuel Oil: As noted in the last audit report, the Authority had not invited bid proposals on a contract for #6 fuel oil for Project 200-1. This contract which expired on June 30, 1950, was extended to June 30, 1951, and again no bid proposals were requested by the Authority.

Previous to the extension of this contract, the Authority requested the State Housing Board to approve the award. The then Chairman of the State Housing Board, in offering no objection to the manner of this award, replied:

"In view of the fact that the Public Housing Administration, which has jurisdiction over many more units than the State Housing Board, feels that the procedure is proper, we have no objection to your entering into this contract."

However, in this connection it was noted that this Authority received subsequent inquiries from the Federal Public Housing Administration concerning the lack of competitive bidding and insisted that the Authority engage in public advertising and competitive bidding on fuel contracts.

It would, therefore, appear that the then Chairman of the State Housing Board was misinformed or neglected to get the necessary information from the Public Housing Administration concerning the propriety of the procedure to be followed.

This Authority also purchased #2 and #5 oil from this contractor without entering into a formal written contract. Subsequent to the aforementioned inquiries from the Public Housing Administration this Authority invited bids for #2 and #5 oil. On February 26, 1951 the following bid proposals were received:

Bidders	#5		#2	
	Projects 200-3 and 4	Project 372 Permanent	Project 372 Permanent	
1	\$3.009 Bbl.	\$3.021 Bbl.	\$1.1024 Gal.	
2	3.05 Bbl.	3.05 Bbl.	No Bid	
3	3.08 Bbl.	3.0822 Bbl.	No Bid	
4	3.12 Bbl.	3.12 Bbl.	\$1.107 Gal.	

Project 200-2 was inadvertently excluded from the advertisement for bid proposals due to the oversight on the part of the Comptroller of the Authority. It was noted, however, a price of nine and one half cents less per barrel than is currently paid by the Authority was negotiated with the lowest bidder for this project.

It is interesting to note that the price paid for #6 oil by the Authority is seven cents a barrel more than the City of Boston was paying to the same contractor.

On the basis of the foregoing prices there appears to be no doubt that the negligence of the Authority in not publicly advertising for bids has caused overpayments on fuel oil purchases.

CHAPTER 372 - TEMPORARY HOUSING

Appropriation Deficit, Development: The Authority was under the impression that the unexpended balance of the original appropriation of \$500,000.00 amounting to \$96,299.28 was still available for expenditure on development costs, not being aware that the City of Boston, had the right to divert any balance remaining in this appropriation after two years to the general funds of the City. Additional obligations, however, were incurred by the

Development Fund subsequent to this transfer. In order to adjust this situation the Authority should request a new appropriation from the City of Boston.

Demolition of Temporary Units: At the present time, 116 of the temporary units at Franklin Field and 51 at Columbia Village are scheduled for demolition. In addition units vacated in the future at Columbia Village will be demolished as they are vacated. The demolition is in accordance with the plans of the Authority to erect permanent housing at these two locations.

Books of Account: This audit was initiated on January 2, 1951. At that time, the only records currently posted were the cash book and the voucher register. The general ledger accounts, with the exception of the cash account, had not been posted since August 1950.

The accounting section of the Authority, was given every opportunity to bring these records up to date during the course of the current audit of the Authority. However, on April 10, 1951 when the audit was concluded, the majority of the general ledger accounts were still not posted. It was necessary for the auditors to review all the detailed transactions affecting these accounts in order to satisfactorily complete the audit. The failure to maintain these records properly is certainly no credit to the efficiency of the Authority. The members of the Authority received no periodic reports of the status of the various projects and the results of their operations for several months prior to the initiation of the audit. The keeping of these records on a current basis is of prime importance in the proper control of the Authority's functions and it is difficult to understand how the members of the Authority have been able to competently administer the affairs of this agency without the necessary detail being supplied them.

Cash Variance: The reconciliation of the bank statement indicated that there was a variance of \$1.48 between the cash balance as shown by the records and the balance reflected in the bank statement. In checking the cash receipts to bank deposits it was noted that the deposits for the period were \$1.48 less than the cash receipts.

Insurance Coverage: There appears to be no fire insurance on these temporary units because the Authority considered the insurance rate on this type of structure prohibitively expensive.

CHAPTER 372 - PERMANENT HOUSING

Cash Variance, Management: The previous audit report commented on the fact that the cash balance shown by the control account was \$974.37 less than the balance as shown by the bank statement. In this connection it was noted that this difference was charged off to surplus during the current audit period. It was noted, however, that a subsequent adjustment of the prepaid rent account, resulted in a credit to surplus, thereby reducing this variance to a net of \$874.37.

Collection in Loss: A collection loss of \$.92 reflected in the operating statement represents the variance between one day's deposit as shown by the Authority's records and the actual deposit credited to its account by the bank. This practice of charging the collection loss account for a variance such as this appears to be improper.

Accounts Receivable, Development: A review of the Accounts Receivable of the Development Fund indicated that \$68,251.62 was due from the Temporary Housing Development Fund. The balance represented amounts paid by the Permanent Development Fund for obligations incurred by the Temporary Development Fund. The Temporary Fund could not meet these obligations since the unexpended balance of its appropriation had been reverted to the general funds of the City of Boston.

It therefore appears that there is no possibility of the Permanent Development Fund being reimbursed by the Temporary Development Fund until such time as an appropriation is made available by the City of Boston.

Interest Charges: To date the records of this Authority do not include charges for interest expense involved in the financing of the Chapter 372 projects by the City of Boston. It is understood that the interest charges will be determined and entered when the actual development costs are finally certified to by the State Housing Board.

Certification of Chapter 372 Projects by the State Housing Board: It was noted that none of the completed and occupied projects have been certified by the State Housing Board. This certification of the development costs must be obtained so that the City of

Boston may receive the reimbursement totaling 10% of the development costs, at the rate of 2% a year for five years, from the Commonwealth. The Authority is currently preparing all the necessary material required by the State Housing Board, and it is probable that some of these projects will be certified in the near future.

CHAPTER 200 - PROJECT 200-1

Grant-in-Aid from the City of Boston: On November 10, 1948, the City of Boston appropriated the sum of \$84,554.92 from its Reserve Fund as a grant-in-aid to the Construction Contract of the 200-1 Project. As was indicated in the previous audit report this was caused by the refusal of the State Housing Board to approve a contract award of \$11,978,042.92 to the general contractor who submitted the lowest general bid, which included two sub-bids that exceeded the same by \$84,554.92, the lowest sub-bids in their respective fields. Upon notice that the general contractor refused to accept the substitution of the two lowest sub-bidders, the State Housing Board on September 17, 1948 withheld its approval of this construction contract. On October 11, 1948, the State Housing Board received a communication from the Housing Authority stating that the City of Boston proposed to make a capital donation of \$84,554.92 on the construction contract, the amount of the variance in the bids. The State Housing Board on October 20, 1948 gave its approval to the Housing Authority to award the construction contract subject to the condition that the City of Boston would pay the amount indicated.

The previous audit report also commented on the fact that this Authority had not setup this grant on its books nor had it made any official request for this money from the City of Boston. This matter was called to the attention of the Housing Authority during the course of the examination, and the grant was consequently received on August 10, 1950. In this connection it was noted that the Authority later requested the State Housing Board for permission to reimburse the City for these funds. This request, however, was denied by the Chairman of the State Housing Board.

Architect's Fee: The previous audit report commented on the fact that the members of the Authority had voted to pay \$190,051.59 to the architect as the balance of his fee, in spite of the fact that the records indicated a balance due this architect of only \$45,552.15. This variance came about because a considerable period of time had elapsed between the time of the actual planning and the construction. The architect in submitting his bill for services took into consideration the increases in costs during the elapsed period.

The Authority requested approval of the State Housing Board to pay the amount as voted. The Chairman of the State Housing Board subsequently notified the Authority that he would approve a payment of \$125,300.00 providing that the architect would execute a release of all claims against the Authority. The Chairman of the State Housing Board in making his decision as to an equitable fee, considered the fact that this project did not have the status of a Chapter 200 Project when the original contract was made with the architect. This original contract called for a revision of fees in the event of a more liberal schedule of fees. The figure computed by the State Housing Board was based upon the percentages found in the standard form of architect's contract under the Chapter 200 program.

The architect signed the requested release and the payment of \$125,300.00 was accordingly made.

Accrued Interest: In checking the accrued interest account it was noted that the accrued interest on the Fifth Series of temporary notes was understated in the amount of \$504.17. It was also noted that the balance of unamortized premiums on the Fourth Series of temporary notes amounting to \$76,310.00 had been incorrectly credited to this accrued interest account. This premium does not represent a liability on the note, it is merely an adjustment of the interest charge and as such the amortization of the premium should be reflected in the interest expense account. The necessary adjustments were made when their need was called to the attention of the responsible officials.

CHAPTER 200 - PROJECT 200-2

Management Receipts and Disbursements: Project 200-2 is managed jointly with Federal Project 2-4. Cash receipts and disbursements of this State Project are recorded in the Federal books and all the funds are kept in the Federal bank accounts. It is suggested that a separate bank account should be maintained for the funds derived from the State Project.

CHAPTER 200 - PROJECT 200-4

Management Receipts and Deposits: In checking the daily receipts to duplicate deposit slips it was noted that on certain occasions receipts were not deposited daily by the project office. There appeared to be no justification for making these exceptions to the policy of making daily deposits of all receipts.

Refrigerator Contract: An examination of the invoices for the purchase of refrigerators indicated that 266 electric refrigerators were delivered to this project, in spite of the fact that the contract called for only 258, which coincided with the number of apartments in the project. It was learned that the eight additional refrigerators were purchased for the individual use of employees of this Authority. The payment on the contract was disbursed from the 200-4 Development Fund, and the payment for the eight additional refrigerators was disbursed from the Central Office Fund, which was subsequently reimbursed by the unidentified employees concerned.

Development Costs: The development costs were overstated in the amount of \$60,000.00, this being the amount of the credit on the construction contract granted by the arbitrator, who was appointed to settle the difference in this contract. The necessary adjustment was made when the matter was called to the attention of the proper employees.

Pay Roll Charges: A test check of the pay roll charges indicated that on date of audit the 200-4 Development Fund was still being charged with a share of the central office construction section pay roll. This was obviously an improper charge since the project had been occupied in August 1950. The prorations for the period in question were recomputed and the necessary adjustments made when the matter was called to the attention of the proper employees.

It was also noted that the salaries of two inspectors were still charged to this project, even though the time reports indicated that both of these men were working on other projects. It was noted in these cases that the pay roll clerk had not been advised when these men had been transferred from this project. It is, therefore, suggested that the employee in charge of the pay roll should be promptly notified of all changes in pay roll allocations in order that each project may bear its true share of the charges.

CHAPTER 200 - PROJECT 200-5

Heating Contract: It was noted that the amount of the heating contract was not included with the construction contract when it was awarded on May 25, 1950 because the Authority considered the responsibilities and qualifications of the lowest bidder inadequate to perform work of this magnitude. In this connection the minutes of the Authority's meetings show that on July 5, 1950 it was voted to award the contract to the second lowest bidder. The State Housing Board approved this substitution on July 15, 1950. The Authority at its meeting on July 21, 1950, however, again voted to award this contract but this time the third lowest bidder was selected. No reason for this was given at that time.

A change order in the amount of this award was subsequently made out and the Chairman of the State Housing Board on October 23, 1950 approved the third lowest bidder as the heating sub-contractor. There was no evidence of any inquiry by the State Housing Board as to this second substitution. A tabulation of the bids follows:

Bidders

#1	\$102,000 00
2	112,900 00
3	114,420 00
4	121,158 00

On the basis of the above listed bids, the second substitution, for which there was no apparent reason, increased the cost of the project by \$1,520.00.

FRAMINGHAM HOUSING AUTHORITY

REPORT No. 51-H-46

Title V: Transactions of this project were checked only for the period from March 31, 1950, to December 31, 1950, since prior to this date the funds of this project were under the control of the Federal authorities. This project was transferred to the Town of Framingham, March 31, 1950.

General - Chapter 372: It was noted that the books of account of the Appropriated Fund and Chapter 372 project have not been posted currently. No journal entries were made for the period under audit and in this respect it was noted that a few journal entries were made setting up the Accounts Receivable charges during the 1949 year.

Chapter 200 - Project 200-1 and 200-2: A few irregularities were found in the rent computations which were brought to the attention of the Executive Director for correction.

LAWRENCE HOUSING AUTHORITY

REPORT No. 51-H-47

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the Housing Authorities shall make an annual report in the month of January to certain State and municipal officials. No report for the year ended December 31, 1949 had been made to date of audit by this Authority. This matter was discussed with the Executive Director and it is understood that he will make a narrative report covering the years 1949 and 1950 in the very near future.

Architectural Contract: It was noted that the payments to the architect exceeded the original fee submitted by the State Housing Board.

In the architect's contract, no definite fee is stated, and only a rate schedule is listed. The rate to be used is governed by what type and how many various types of buildings are constructed in the projects.

The architect based his fee on this schedule by using rate "B", contending that there are seven different types of buildings. The State Housing Board compared his fee using the "A" rate. The variance between the two fees is mainly due to the interpretation of how many different types of buildings were constructed.

The local Authority, however, did not consult the State Housing Board until their payment to the architect had exceeded the fee figured by the State Housing Board.

Chapter 372 - Subsidies Received: It was noted that there was paid to the City of Lawrence through the State Housing Board, subsidy payments for the two fiscal years ended June 30, 1951, the sum of \$41,831.26. These payments were based on 2% of the total development cost including financial charges, as follows:

Total Development Cost	\$1,027,884 66
Add - Financial Charges during Development Period	17,896 81
	<u>\$1,045,781 47</u>
Two Per Cent, year ended June 30, 1950,	
Received by City of Lawrence May 26, 1950	\$20,915 63
Two Per Cent, year ended June 30, 1951,	
Received by City of Lawrence October 30, 1950	20,915 63
Total Subsidies Received	<u>\$41,831 26</u>

It is understood that these subsidies will be continued for a total of five years in conformance with statute.

FALL RIVER HOUSING AUTHORITY

REPORT No. 51-H-48

General - Joint Expenses of the Several Projects: Expenses for pay roll and certain miscellaneous expenses which are chargeable to two or more projects are paid in the first instance from the bank account of the Federally-Aided project.

Whenever possible these expenses are charged on the basis of applicability. Where such distribution is not proper, an allocation is made on the basis of the number of units. At the end of each month the several projects reimburse the Federally-Aided project for their proper share of the expenses.

In order to provide sufficient cash to meet these items, the various projects make advances of funds which are deposited in the bank account of the Federally-Aided project. These advances are carried as "Accounts Payable - Sundry" on the books of the Federally-Aided project, and as "Accounts Receivable - Sundry" on the books of the project advancing the money.

As of December 31, 1950, Projects 200-1 and 200-2 had advanced \$1,000.00 each.

Chapter 372 - Charge-Off of Delinquent Accounts: Delinquent tenants' accounts in the amount of \$1,396.86 were charged off as of December 31, 1950. Examination of the min-

utes of the meetings of the Authority failed to indicate any authorization for these charge-offs, and it is suggested that future adjustments of this nature should be made only after proper authorization.

Project 200-1 - Contract for Financial Assistance: The certificate of purposes and statement of cash requirements was reduced from \$1,600,000.00 to \$1,450,000.00 because the number of dwelling units to be built under this project was reduced from 149 to 131.

As of the date of audit, the revised contract for financial assistance had not been received by the local Authority from the State Housing Board.

Project 200-1 - Investments in United States Securities: It was noted that the investments in United States Securities are being carried at their cost of \$72,039.28. The maturity value of these investments is \$72,810.00.

The manual of instructions of the State Housing Board prescribes that interest to be realized on investments should be set up as a liability at the time of investment and that the investments should be carried at maturity value.

Project 200-1 - Advances from Other Projects: It was noted during the period under audit that there was deposited to the account of Project 200-1 advances from Project 200-2 and Project 200-3 in the amounts of \$100,000.00 and \$17,000.00, respectively.

This was arranged in order to provide cash for Project 200-1 pending the maturity of investments of Project 200-1.

As of the date of audit Project 200-1 owed \$17,000.00 to Project 200-3. This amount was reimbursed while the audit was in progress. Attention is called to the fact that this type of transaction is contrary to the terms of the Contract for Financial Assistance.

Project 200-1 - Change Order No. 11: It was noted that Change Order No. 11, in the amount of \$2,923.47, approved by the Chairman of the State Housing Board on December 14, 1950, had not yet been entered on the books of account as of December 31, 1950.

Project 200-2 - Permanent Financing: The initial operating period of this project started March 1, 1950, the date of the first tenancy, and ended on September 30, 1950, with the issue of the bonds ending the so-called Temporary Financing. In this connection it was noted that the bond issue at an interest rate of $1\frac{3}{4}\%$ was in the aggregate amount of \$1,936,000.00, the total development cost of the project.

It was also noted that the management accounts for the initial operating period were closed on September 30, 1950, and new accounts under permanent financing were opened as of October 1, 1950.

Project 200-3 - Investments in United States Securities: It was noted that the investments in United States Securities are being carried at their cost of \$56,179.79. The maturity value of these investments is \$56,630.00.

The Manual of Instructions of the State Housing Board prescribes that interest to be realized on investments should be set up as a liability at the time of investment and that investments should be carried at maturity value.

MONTAGUE HOUSING AUTHORITY

REPORT NO. 51-H-49

Project 200-1 - Permanent Financing: The initial operating period for this project ended on December 31, 1950 with the issue of bonds under the so-called permanent financing. In this connection it was noted that the bond issue at an interest of $1\frac{3}{4}\%$ with a premium of \$5,014.00 was in the aggregate amount of \$325,000.00, the total Development cost less the amount of the operating surplus for the initial operating period. These bonds were issued to the National Bank of Chicago and Associates who made the highest bid of those seen.

It was further noted that the management accounts for the initial operating period were closed as of December 31, 1950, and new accounts under permanent financing were opened as of January 1, 1951.

Rental Charges: It was noted that no survey of tenants' income has been made since the original tenants selection.

It is recommended that such a survey be made and the rental charges of tenants be adjusted to the rental schedule in conformance with the agreement between this Housing Authority and the State Housing Board.

Management Records: The new management accounts for the month of January 1951

which were supposed to be in operation as of January 1, 1951 were not examined, as the transactions had not been entered on the records of the Authority before the completion of this examination.

SOMERVILLE HOUSING AUTHORITY

REPORT No. 51-H-50

Establishment of a Revolving Fund: It was noted that most of the disbursements made which involved expenses applicable to more than one project, are made from the Administration Fund of Project 200-1. This is contrary to the terms of the Administration Fund Agreement and it is recommended that a Revolving Fund be established and maintained for these purposes.

Minutes of the Meetings: It was noted that the individual votes of the members of the Somerville Housing Authority were not recorded in the minutes. It is suggested that all votes cast by the members of the Authority, together with a list of bidders on various contracts be indicated as part of the permanent records on the minute book as they appear to be required, as per the by-laws of the Authority. It was further noted that the necessary details of the various temporary notes awarded were also not inserted in the minute book, as of December 31, 1950.

Accounting Fees: It was noted that the Authority was paying \$50.00 a month to a private accountant. In view of the fact that the Authority regularly employs an accountant who receives \$75.00 per week, disbursements of this nature appear unnecessary. The accountant employed by the Authority should maintain all the necessary books of accounts with the resultant appreciable savings to this Authority.

Luncheons and Conferences: It was noted that since April 1, 1950 a total of \$638.80 had been disbursed to various hotels, restaurants, etc. for luncheons, and conferences. This amount was charged to the various projects as follows:

	<u>Amount</u>
Clarendon Hill, Development Fund 200-1	\$ 13 81
Mystic Avenue, Development Fund 200-2	624 99
Total	<u>\$638 80</u>

Of the amount indicated \$168.26 was for a luncheon following the ground breaking ceremonies. The balance of the amount disbursed was for amounts ranging from \$13.81 to \$155.65.

Materials and Supplies - Project 200-1: It is recommended that stock ledger cards be maintained for maintenance supplies and materials. All items lost or broken should be identified and reported to the office so that the stock ledger card will always indicate the true balance.

Discounts on Purchases: It was noted that the Authority did not always take advantage of discount terms on invoices for supplies, etc. Greater care should be taken when processing bills for payment to see that all possible discounts and deductions are taken.

Chapter 200-2 - Change Orders Affecting Contracts Not Included in General Ledger Control Account - Contract Awards: It was noted that additions to and deductions from contracts because of Change Orders are not reflected in the control account. It is suggested that these amounts be posted to the account so that proper control will be available at all times.

Chapter 200-1 - Fire Insurance: As of the date of audit two five year fire insurance policies had not been returned to the insurance agency for cancellation so that the short-rate cancellation fees might be taken advantage of. It is understood that this credit should total \$1,700.00 less the short term cancellation rates for the period ending July 1, 1950. On that date these two buildings were covered under the so-called "Blanket Insurance" policy of the State Housing Board.

Project 200-1 and 200-2 - Contract Awarded - 1/2 Ton Pick-Up Truck: It was noted that this Authority did not award a contract for a truck purchase to the lowest bidder.

Reasons seen on file for this were indicated as follows:

1. Lowest bidder's price was subject to any factory change between now and the delivery date.
2. The other bidder guaranteed delivery at bid price.
3. The Somerville Housing Authority feels that the Truck A is more economical to operate than the Truck B; parts for the Truck A can be easily obtained locally, whereas they might experience difficulty in obtaining parts for servicing the Truck B.

The difference between the two bids was \$220.05. The Somerville Housing Authority approved the awarding of the contract to the second low bidder at their December 28, 1950 meeting. They notified this company to deliver the truck the following day. It was noted that the transaction was approved by the State Housing Board under date of January 15, 1951.

Chapter 372 - Linden Avenue - Contingency Fund: It was noted that there was no activity in this fund during the period audited. It is recommended that the balance in this fund, \$844.80, be expended in the operation of projects under the Somerville Housing Authority for "purposes other than capital donation to Development Costs."

WOBURN HOUSING AUTHORITY

REPORT No. 51-H-51

Rental Income: In analyzing the receipts of money as indicated by the rent receipts it was noted that deposits were not being made daily. Because of this, it was impossible in several instances to reconcile the receipts with the deposits. It was noted that a discrepancy of \$.50 existed between the Tenants' Ledger and the Tenants' Accounts Receivable control account. A further discrepancy of \$2.90 had been incorrectly adjusted by being passed through a "Cash Short Account". It is suggested that further deposits be made daily as required by the Manual of Accounts issued by the State Housing Board.

Security Deposits: A security deposit of \$10.00 is required to be paid by a tenant before occupancy of a unit. It is returned when he vacates after necessary deductions for back rent and repairs made necessary by carelessness, etc. It was noted that this account in the two projects was overstated. In Project 200-1, it was caused by one tenant not being refunded his deposit when the unit was vacated and a refund being improperly made from the Development Fund. In Project 200-2, it was caused by two tenants vacating while owing back rent without the security deposits' balance being applied to their rent arrearages. It is recommended that the proper entries be made so that these accounts will reflect their true balances.

Expenditures: It was noted that certain expenses which should have been charged to the Administration Fund in the amount of \$365.78, were paid with Development Funds. It is recommended that the Administration Fund reimburse the Development Fund for this amount.

Rent Receipt Books: It was noted that five rent receipt books each containing fifty receipts could not be found in connection with this audit. As the vendor did not list the respective numbers of the receipts on the invoice, it was impossible to actually determine which books were not available. It is suggested that subsequent purchases of these books be identifiable by book numbers on the invoices received from the vendor.

Fuel Oil Purchases: It was noted that fuel oil for the two projects is purchased without the formality of obtaining competitive bids. The management program approved by the State Housing Board and adopted by this Authority states that on all purchases in an amount in excess of \$300.00, invitations for bids be publicly advertised or mailed to not less than three qualified vendors or contractors. It is suggested that future fuel oil purchases be handled in this manner.

Deficit of Initial Operating Period: Prior to entering into Permanent Financing, all bills involving Development Costs are paid. If the work has not been completed, an estimated amount is set up as an Account Payable to be paid from Development Fund. Thereafter all expense accounts together with accrued expenses and the income accounts are closed and the surplus or deficit is closed to the Development Cost account. The Development Costs are then rounded off for convenience to an even thousand dollar figure to facilitate the handling of the bond issue.

The closing entries for the Development Period and the Initial Operating Period are determined by the State Housing Board, and are given to the local authority for entry. In this connection it was noted that an entry was made setting up the Accrued Insurance and Operating Reserve, as of the end of the Initial Operating Period. The offsetting expenses were closed to the Earned Surplus account. Together with the other expense and income accounts these entries created a deficit of \$4,969.33 for the Initial Operating Period which when it was closed into the Development Cost account had the effect of increasing the Development Costs. These entries are explained as follows:

(a) The date of the policy for Fire and Rental Insurance was June 16, 1950 with an expiration date of March 1, 1955, making the insurance expense approximately \$80.00 per month. The Initial Operating Period was for a period of three and one half months which would make the proper accrual of insurance expense approximately \$280.00 rather than \$4,650.00 set up by the State Housing Board, a difference of \$4,370.00.

Attention is called to the fact that the Manual of Instructions issued by the State Housing Board states that the "cost of insurance premiums paid before the completion date will be charged in full and directly to Account 4700 General Expenses in the Initial Operating Period books." Since this was not paid before completion date, it would appear that only the accrued expense applicable to that period should have been charged.

(b) It was noted that the management program approved by the State Housing Board and adopted by this Authority states that the maximum accrual to the Operating Reserve in any one fiscal year shall not exceed \$6,484.00. The amount credited to this account was \$6,755.00, which is in excess of the established limit for one fiscal year even though the Initial Operating Period was for only three and one half months.

The Manual of Instructions of the State Housing Board states in this regard that "before completion date an Operating Reserve will be established in accordance with the management program and on the basis of unit months of availability." According to these instructions, it would appear that the Operating Reserve account should have been credited with only a prorata share of \$6,484.00, or \$1,890.00 for this period, a difference of approximately \$4,500.00.

Because of the foregoing it would appear that the Authority was required to issue \$9,000.00 in bonds at 1 3/4% in excess of actual requirements. This over-issue will cost this Authority over the life of the bonds, interest in an estimated amount of approximately \$3,150.00.

Permanent Financing, Project 200-1: Project 200-1 is still in temporary financing despite the fact that the units have been occupied for a period of approximately fifteen months, while Project 200-2 was put into permanent financing after only three and one half months of occupancy.

Permanent Financing, Project 200-2: The Initial Operating Period of this project started June 17, 1950, the date of the first tenancy, and ended on September 30, 1950, with the issue of bonds under the so-called Permanent Financing. In this connection it was noted that the bond issue at an interest rate of 1 3/4% was in the aggregate amount of \$637,000.00, the total net development cost of the project.

It was also noted that the management accounts for the Initial Operating Period were closed on September 30, 1950, and new accounts under Permanent Financing were opened as of October 1, 1950.

Funds of Authority On Which No Interest Is Collected: It is noted that the bank which acts as the fiscal agent for the Debt Service Fund does not pay the Authority any interest on the funds which it receives as contributions toward the payment of bond interest and bond redemptions.

Inasmuch as the bank makes a charge for its service as fiscal agent, it would seem that some compensating credit should be allowed for the use of these funds.

Director's Salary and Mileage Allowances: It was noted that the Executive Director and Secretary of this Authority was paid until October 1, 1950 at the rate of \$1.00 per hour. In this connection it was noted that the hours worked by this individual ranged from 50 to 62 1/2 hours per week with an average of 56 hours.

An examination of this individual's auto mileage reports together with the related weekly speedometer readings indicates what appears to be an excessive number of miles driven in his personally-owned automobile for which he was reimbursed by the Authority at the rate of 6 cents per mile. It was also noted that the aforementioned weekly speed-

ometer readings indicated a duplication of readings involving 941 miles, or an apparent overpayment of \$56.46. In another instance this mileage was reimbursed at a rate of 7 cents per mile.

It is suggested that the Authority review the entire matter, and if it develops that a refund is owing, it should take the necessary steps to collect it.

ARLINGTON HOUSING AUTHORITY

REPORT No. 51-H-52

Contract Awards (Change Orders): In analyzing this account and tabulating the change orders, it was noted that the Executive Director had duplicated postings of certain change orders totaling \$9,231.38. As the postings were also made to the Incompleted Contracts account, it left both accounts overstated in a like amount. It is suggested that the necessary adjustments be made.

Books Not Currently Posted: This examination was initiated on February 7, 1951. At that time it was noted that the cash books and ledgers pertaining to the project had not been posted since December 31, 1950. The closing entries for the entire operating period and the opening entries under Permanent Financing which began on January 1, 1951, were not available on the date this audit started. These entries were not received until February 12, 1951, and the Executive Director finally closed out his Initial Operating Books on February 19, 1951. A few days later the January 1951 transactions were entered in the new books set up under Permanent Financing.

Deposits of Funds: All cash received from tenants should be deposited in the bank daily. At present it is allowed to remain in a locked file in the office of the Authority for long periods of time.

It was also noted that the rental income and the Tenants' Security Deposits were both deposited in the Administration Fund cash account. It is suggested that separate bank accounts be opened for these two accounts.

Deposit Not Entered: It was noted that a deposit of \$368.00 made on June 5, 1950 had not been entered in the cash book. Greater care should be taken in posting from the cash deposit slips to the cash book. If the bank statements had been reconciled to the check books and to the cash accounts in the general ledger each month, this error would have been corrected earlier.

Pay Roll Records: It was noted that no time sheets or other records, showing the time actually worked by the employees of the Authority were available, and steps should be taken to see that they are provided.

Error in Posting: It was noted that an amount of \$322.51 representing a dividend received for a fire insurance binder had been posted in error to the Accounts Payable. This was called to the Attention of the Executive Director who will make the necessary adjustment.

Posting of Tenants' Accounts Receivable: It was noted many charges to this account were posted incorrectly as were certain credits. Several credits did not agree with the rent receipts and many of the closing balances were computed incorrectly. It was also noted that in a few instances they had not included correct rent charges. It is also suggested that the rental postings should be made before the first day of each month, and credits should be posted promptly after their collection. Trial balances of outstanding rents should be taken at the end of each month, and all outstanding accounts should be carefully followed.

Minute Book: It was noted that the necessary "Waiver of Notice and Consent to a Special Meeting" was not signed by all the members of the Authority. It was also noted that as of February 7, 1951, entries in the minute book included the meetings through November 27, 1950. Records of all other meetings held during this audit period were located in a file tray on an office desk. It is recommended that all minutes of the meetings be immediately filed in the book provided for that purpose. Greater care should be taken in the handling of these items, as they represent most important records.

Development Costs: It was noted that although this project was originally planned to cost \$1,600,000.00 with a unit cost of \$12,698.00, it now appears that the actual final cost is approximately \$1,416,000.00, with a unit cost of \$11,238.00.

Development Fund Bank Accounts: There was but one control account in the general ledger for the three different bank accounts. The manual states that a separate account should be maintained in the general ledger for each bank account.

Architect's Fees: It was noted that the architect's fees included a percentage of the cost of the ranges and refrigerators which went into the project. It would seem that his fee should not have included any part of these items, and it is suggested that some arrangement should be made for an adjustment.

Permanent Financing: The initial operating period of Project 200-1, ended on December 31, 1950 with the issue of bonds under so-called Permanent Financing. In this connection it was noted that the bond issue at an interest rate of $1\frac{3}{4}\%$ with a premium of \$22,231.20, was in the aggregate amount of \$1,416,000.00. This amount represented the total Development Cost, less a part of the surplus from operation of the initial operating period in the amount of \$15,411.16.

It was further noted that while the audit was in progress the books for the initial operating period were closed as of December 31, 1950 and new accounts under Permanent Financing were opened as of January 1, 1951.

UXBRIDGE HOUSING AUTHORITY

REPORT No. 51-H-53

Permanent Financing: The Uxbridge Housing Authority transferred from temporary financing to permanent financing by the issuance of bonds totaling \$255,000.00, effective January 1, 1951 and maturing January 1, 1952 to January 1, 1991.

These bonds were purchased by the Chicago National Bank and Associates. The bid submitted by the Chicago National Bank and Associates appeared to be the most advantageous of the bids received.

This bid called for an interest rate of $1\frac{3}{4}\%$ with a premium of \$3,957.00, reducing the net interest payment to \$97,508.00.

Management Records: The Development Fund and the Administration Fund were audited to December 31, 1950. On December 31, 1950 the balance sheet accounts of the Development Fund were closed out and combined with the present Administration Fund to form the Management records or the new Administration Fund.

The Management records were audited for the period from January 1, 1951 to January 31, 1951.

Lack of Records: Although there is a rent roll available, the Uxbridge Housing Authority, as yet, has not opened up a Tenants' Accounts Receivable ledger. It was brought to the attention of the Executive Director, who will make the necessary changes.

NORTHBRIDGE HOUSING AUTHORITY

REPORT No. 51-H-54

Rent Receipt Books: At the present time, pads with fifty duplicate slips are being used for rent receipts. They are not numbered. A number, however, is inserted when making out a receipt. Although an inventory was taken of these pads, it is inadequate for auditing purposes. It is suggested that rent receipt books, which are prenumbered, be purchased.

Records: Tenants' Accounts Receivable ledger sheets are maintained in loose form. It is suggested that these loose sheets be bound or a new Tenants' Accounts Receivable ledger be opened in a bound book.

MATTAPOISETT HOUSING AUTHORITY

REPORT No. 51-H-55

Tenants' Accounts Receivable: As of the date of audit there was a tenants' account receivable owing to the Authority in the amount of \$35.00. This account receivable had not been recorded on the books.

It is recommended that a tenants' control accounts receivable account be maintained in conformance with the procedure outlined in the Accounting Manual issued by the State Housing Board.

Payment to Architect: It was noted that the total architect's fee as determined by the State Housing Board was \$3,356.12. In this connection, it was noted that the total cash payments to the architect amounted to \$3,600.19 which was charged against the following

development expense accounts:

Fees - under Contract	\$3,356 12
Travel	110 00
Inspection - Salaries and Expenses	134 07
	<u>\$3,600 19</u>

The charges for Travel and Inspection Expenses were authorized by the local authority for work which would ordinarily be performed by the Clerk of Works. It is understood that work was performed by the architect since no Clerk of Works was employed.

Administration Expenses: It was noted that there were no cash payments for expenses, etc. made from the Administration Fund during the audit period.

All administration expenses were apparently paid from the Development Fund. The only items of expenses which were charged to the initial operating period involved adjustments when the accounts for that period were closed prior to the opening of the new books under permanent financing.

Permanent Financing: The initial operating period of this project started May 1, 1950, the date of the first tenancy, and ended on September 30, 1950, with the issue of the bonds beginning the so-called Permanent Financing. In this connection, it was noted that the bond issue at an interest rate of 1 3/4% was in the aggregate amount of \$120,000.00, the total development cost of the project.

It was also noted that the administration accounts for the initial operating period were closed on September 30, 1950 and new accounts under permanent financing were opened as of October 1, 1950.

LEOMINSTER HOUSING AUTHORITY

REPORT No. 51-H-56

Development Fund - Change Order No. 9: A payment of \$4,300.00 on a change order submitted by the contractor for Strapping and Furring of ceilings is being held up by the Leominster Housing Authority because it feels that the Strapping and Furring of the ceilings was called for in the original contract price. The State Housing Board reviewed the contractor's appeal for payment and agreed with the contractor, yet, at a subsequent meeting of the Leominster Housing Authority, it was again voted to refuse payment and not to sign the change order on the basis that the work done was called for in the original contract. The payment of \$4,300.00 is still pending.

The Leominster Housing Authority has requested the State Housing Board to reconsider its ruling on the above matter.

NEWBURYPORT HOUSING AUTHORITY

REPORT No. 51-H-57

Rental Income: In attempting to reconcile the rent receipts to the bank deposits, it was noted in several instances that the actual amount of money was not deposited daily. It is recommended that all money received be deposited daily in the same form as indicated by the rent receipts.

Security Deposits: Because of a change in the procedure of charging tenants for electricity, it has developed that occasionally tenants show a prepaid electric account balance as of the first day of a month. When the tenant vacates, the prepaid amount is applied to what is owed as determined from the meter reading and the difference is either collected or refunded.

It was also noted that the electric bills for certain tenants are substantially more than the prepaid amount, so it is possible that they may vacate the premises owing for electricity.

There are no security deposits from which damage costs, etc., which are chargeable to tenants, can be deducted. It is suggested that a security deposit be required of each tenant so that damage costs, electricity, etc. may be deducted in the event that a tenant moves without paying what is owed in these respects.

Minutes of Authority's Meetings: It was noted that considerable material that should have been incorporated in the minutes was omitted. It was also noted that the minutes from February 1950 to August 1950 could not be located. It is advised that more serious attention be given to the keeping of more complete records of the Authority's meetings.

Payments to Contractor: An examination of the amounts paid to the general contractor indicates that the amount of money the contractor contends is due him does not agree with the amount so set up on the Authority's books. This condition was brought about by the Authority's paying the contractor monies other than those which appear on the approved Periodical Estimates.

At the present time, the Authority is withholding from this contractor as contract retentions the amount of \$20,717.50. The final acceptance of the project will not take place until the Authority and other interested parties reach an agreement as to the exterior painting on the project. This paint is blistering and peeling and the Clerk of the Works is of the opinion that this can only be corrected by removing the outside clapboards and replacing the paper under them with a different type paper. The general contractor, however, is only willing to repaint the units where this condition has occurred. The Clerk of the Works estimates to remedy the situation to his satisfaction would involve the further expenditure of approximately \$25,000.00.

It was also noted that an item of \$444.00 apparently owed by this contractor to the Authority is still unsettled.

It was further noted that an invoice in the amount of \$150.63 for easing doors at the project was charged to the Development Costs. It was noted, however, that the contractor was notified to correct the situation, but never complied. This charge should also be set up as a receivable from the contractor.

MALDEN HOUSING AUTHORITY

REPORT No. 51-H-58

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. No report for the calendar year 1950 had been made to date of audit by this Authority. This matter was discussed with the Executive Director, who indicated that he is working on the compilation of this report.

Maintenance Supplies and Materials: It is suggested that stock ledger cards be maintained for maintenance supplies and materials. All items lost or broken should be properly identified and reported so that this ledger card will show the purported inventory at all times.

Chapter 200 - Project 200-1 Development Costs: It was noted that although this project was planned to cost \$1,377,000.00 with a unit cost of \$11,105.00, it now appears that the actual final cost will amount to \$1,216,000.00, with a unit cost of \$9,806.00.

Appropriation Fund: It was noted that the Malden Housing Authority maintains a checking account in a local bank for this fund. This fund was appropriated by the City of Malden to pave certain roads and install public utilities. No activity has taken place in this account for more than one year. It is suggested that necessary accounts be opened in the books of the Authority for the control of this fund.

General - Establishment of a Revolving Fund: It is recommended that a fund of this nature be set up to handle the expenditures which are made by this Authority that apply to all the projects. In order to establish this fund, each project could transfer funds to start once each month, the projects would reimburse the revolving fund for whatever was paid from the fund in the previous month that applied to each particular project. The expenses applicable to all projects could be prorated on the unit basis, as follows:

Title V	- 70 Units	23%
Chapter 372	- 8 Units	3%
Project 200-1	- 124 Units	42%
Project 200-2	- 96 Units	32%

It is also recommended that Petty Cash funds and Change Funds be set up for the two State-aided projects.

Tenants' Accounts Receivable: It was noted that two accounts have been outstanding for more than a year. It is suggested that if in the opinion of the Authority these accounts are uncollectible, steps should be taken to charge them from the records. These accounts are as follows:

D. C.	\$318 00
D. M.	35 00
	<u>\$353 00</u>

NORTHAMPTON HOUSING AUTHORITY

REPORT No. 51-H-59

Administration Fund (Initial Operating Period): The surplus from operations during the initial operating period aggregated \$19,651.70. This surplus was distributed as follows on the Management books:

Development Fund (to reduce Development Cost)	\$ 5,610 70
Reserve for Insurance	7,000 00
Reserve for Operations	7,041 00
Total Transferred to Management Account	<u>\$19,651 70</u>

Rental Debt Service Contribution: The manual of instructions issued by the State Housing Board prescribes as follows:

"The sum to be furnished from rental income in a fiscal year for debt service is the amount which together with the amounts received from other sources will equal the year's total debt requirement.

"This amount will be paid into the Debt Service Fund in 12 monthly payments the transfer of cash to take place before the 15th day of each month." (As modified by letter of instruction #6) "to provide that the final payment to the fiscal agent shall be made on or before the 15th day of the 10th month of the fiscal year, and will consist of the whole three months balance due for debt service for that year."

As of the date of audit, no transfers have been made for this purpose, and it is therefore recommended that such transfers be made by the Authority.

Debt Service Expense: The manual of instructions issued by the State Housing Board prescribes as follows:

"The year's interest due on outstanding bonds together with the amounts to be provided for that year's retirement of principal will be the Debt Service Requirement for the year.

"This combined amount will be accrued monthly."

The financial records of the Northampton Housing Authority do not reflect a debt service expense accrual for the month of February. When this adjustment of \$2,707.08 has been made, the earned surplus account balance of \$2,246.67 (before adjustment) will be eliminated and a deficit of \$460.41 will result.

It is recommended that this accrual be made monthly.

Tenants' Accounts Receivable Ledgers: It is recommended that a trial balance of the Tenants Accounts Receivable ledgers be taken monthly and checked to the control accounts in the general ledgers.

Title V Project: It is recommended that the records of the Northampton Housing Authority pertaining to the Title V Project be placed on a cash basis as per instructions contained in letter dated January 16, 1951 from the Chairman of the State Housing Board.

Permanent Financing: The initial operating period of this project ended on December 31, 1950 with the issue of bonds under the so-called permanent financing. In this connection, it was noted that the bond issue at an interest rate of 1 3/4% with a premium of \$14,607.00 was in the aggregate amount of \$942,000.00. This amount represents the total development cost, less a part of the surplus during the initial operating period.

WALTHAM HOUSING AUTHORITY

REPORT No. 51-H-60

Project V 19111: The expenses for this project, regardless of their nature, are posted to one account "Expenses." It is understood that after April 1, 1951, these expenses will be individually posted to one of the following accounts:

- 4100 - Management
- 4200 - Operating Services
- 4300 - Dwelling and Commercial Utilities
- 4400 - Repairs, Maintenance and Replacements
- 4700 - General Expenses

Project 200-1: It was also noted that all income for this project is posted to the "3000" account in the general ledger. It is suggested that the income be posted to the proper accounts.

Pay Roll: It was noted that no time sheets for pay roll purposes were maintained. These time records are very important because the Authority employs several maintenance men on an hourly basis.

General - Books of Accounts - Project 200-1: It was noted that the books under temporary financing were not closed as of December 31, 1950, but were left open until January 31, 1951. Attention is also called to the necessity for being more careful in posting the journal vouchers to the general ledger, as in many instances the journal vouchers did not agree with the general ledger posting.

Tenants' Account Receivable: It was noted that the minutes of the Authority's meeting on January 14, 1951 approved the writing off of a certain account because it was uncollectible. This account in the amount of \$44.70, however, was not written off prior to the completion of the audit.

Permanent Financing: The initial operating period of Project 200-1 ended on December 31, 1950, with the issue of bonds under so-called permanent financing. In this connection, it was noted that the bond issue at an interest rate of $1\frac{3}{4}\%$ with a premium of \$22,169.00 was in the aggregate amount of \$1,430,000.00. This amount represented the total development cost, less a part of the surplus from the operations during the initial operating period.

WESTBOROUGH HOUSING AUTHORITY

REPORT No. 51-H-61

Permanent Financing: The Westborough Housing Authority transferred from temporary financing to permanent financing by the issuance of bonds totaling \$152,000.00, effective October 1, 1950 which mature October 1, 1951 to October 1, 1990.

These bonds were purchased by Phelps, Fenn and Co., Lehman Bros., R.W. Pressfrich and Co., Goldman, Sacks and Co. and Associates. The bid submitted by the above named appeared to be the most advantageous of the bids received.

This bid called for an interest rate of $1\frac{3}{4}\%$ with a premium of \$152.00, reducing the net interest payment to \$60,240.50.

Commonwealth Annual Contribution: The Commonwealth pays this Authority an annual subsidy of $2\frac{1}{2}\%$ of the total Development cost.

This payment is made to the Authority's fiscal agent, The National Shawmut Bank of Boston, which advises the Authority of its receipt. This advice becomes the basis for the entry in the books of the Authority.

Administration Records: The Development Fund and the Administration Fund - Initial Operating Period - were audited to October 1, 1950. On October 1, 1950 the balance sheet accounts of the above funds were combined to form the new Administration Fund.

The Administration Fund records were also audited for the period from October 1, 1950 to February 28, 1951.

Administration Fund: The previous audit report commented on the fact that no Tenants' Accounts Receivable ledger had been set up and that the cash in this fund had not been segregated from the Development Fund.

In this connection it was noted that the two foregoing suggestions have been complied with.

Development Fund: It was noted that an additional \$3,500.00 was expended to correct the Heating System on this project because it was found to be inadequate.

WATERTOWN HOUSING AUTHORITY

REPORT No. 51-H-62

Rent Receipts: The previous audit report commented on the fact that the rent receipts being used were not numbered by the printer in advance and, therefore, had little value for auditing purposes. This condition still exists and it is again recommended that the rent receipts be prenumbered by the printer with the invoices showing the serial numbers of the rent receipts purchased.

Tenants' Security Deposits: The Watertown Housing Authority does not require security deposits of its tenants.

Proration of Administrative Salaries and Office Expenses: The salaries of administrative personnel have been charged almost entirely to the Development Fund of Project 200-1. Since this project has been in full occupancy for four months, it would seem that no further charges should be made to the Development Fund for these administrative salaries.

Since the inception of the Administration Fund of Project 200-1, charges for administrative salaries and expenses have amounted to only \$54.37. It is advised that the amounts for office salaries and expenses for the period November 1, 1950 to February 28, 1951, be transferred from the Administration Fund to the Development Fund of Project 200-1, as at present the Development Fund charges are inflated in these amounts.

It is also suggested that in the future all administrative salaries and expense charges be prorated in some equitable manner, preferably on a per unit basis between the various projects concerned.

Chapter 372 - Collection Loss: It was noted that a charge of \$40.00 to the Vacancy Loss account was made in December 1950. It was noted that this charge was actually a collection loss because it was for rent due from a tenant who had moved without paying. No authorization for charging off this amount could be found in the minutes of the Authority's meetings.

Chapter 372 - Purchase of Fuel Oil: No contract has been awarded for the purchase of #2 fuel oil which is being supplied by a local concern. No invitations to bid were sent as required. It is recommended that the Authority invite bids and award a contract for the purchase of this item.

Project 200-1 - Refund of Bid Deposit: During the course of the audit, a bid deposit of \$250.00 in the form of a certified check was found in the office. This check represented the bid security of the successful bidder on #6 fuel oil. As the check was dated June 1, 1950 and the contract was awarded on June 6, 1950, it is suggested that the bid deposit be returned.

Project 200-1 - Tenants' Leases: It was noted that several tenants had not executed lease agreements as required by the Management Program. It is suggested that leases be available with all tenants.

Project 200-1 - Change in Subflooring: Attention is called to the fact that the contract specifications require 5/8" "Plywood" for the subflooring in kitchenettes and dinettes. In a letter to the contractor dated June 16, 1950, the architect authorized the use of 5/8" "Plaswood" in place of the Plywood. No change order was ever issued for this substitution. It is understood that the Authority has requested a credit from the contractor which, in the opinion of the Authority, should be approximately \$300.00.

Project 200-1 - Contract for Gas Ranges: It was noted that the contract for gas ranges was not awarded to the lowest bidder. The reason given was that the ranges bid on by the lowest bidder did not comply with the original specifications. The Authority awarded the contract to the second lowest bidder with the approval of the State Housing Board.

Project 200-1 - Change Order Approval: Listed among the Change Orders by the contractor is an item of \$7.88. It is listed as Change Order #16 additional. There appears to be nothing on record to substantiate this item. It is suggested that the architect or the contractor be requested to furnish a change order in detail, regardless of the amount of money involved.

Project 200-1 - Rent Income: With the approval of the Authority, two tenants have

received deductions in their rent because of part-time employment at the project. In order that true conditions may be properly reflected on the records, it is suggested that these tenants pay their gross rent and the Authority reimburse them for the value of their services.

Project 200-1 - Unauthorized Rent Adjustment: It was noted that the rent of one tenant had been computed at \$128.24 for February 1951. This tenant had received an unusually large bonus from his employer and had signified his intention of vacating his apartment as soon as he could locate a new home. The Authority permitted him to stay as a "tenant at sufferance." His new rent, which was computed with the assistance of a representative of the State Housing Board, involved an increase of \$81.24. Although it was not authorized in the minutes of the Authority's meetings, this tenant's rent was reduced to the original \$47.00 for February 1951. The offsetting charge was made to Dwelling Rent. It is recommended that this charge be set up as a collection loss. It is further recommended that all adjustments of this nature should be acted upon by the Authority and be so recorded in the minutes of its meetings.

Project 200-1 - Purchase of Equipment: It was noted that the Authority purchased a "Snow Thrower" machine in December 1950 for \$675.00. This purchase was not approved by the State Housing Board because the provisions of the approved Management Program were not complied with. In this connection Section IV (c) on the Management Program states that:

"all purchases and contracts involving a sum in excess of \$300.00 shall be made only after invitations for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

Project 200-1 - Architect's Fees: The State Housing Board recommends that vouchers representing the final payment to the Architect be submitted to the State Housing Board for approval. All bills for compensation for revision of plans should also be submitted for approval. In this connection, it was noted that the Authority had made two payments to the architect for revision of plans in the amounts of \$930.75 and \$2,999.64 respectively. It is suggested that all payments of this nature be approved by the State Housing Board.

Project 200-1 - Prepaid Insurance: A payment of \$2,869.03 for prepaid insurance was made from the Development Fund when 24 units were transferred from Chapter 372 to Chapter 200. It is suggested that this amount be transferred from the Administration Fund to the Development Fund as insurance is a management expense and should not be paid from development funds.

Project 200-2 - Development Cost: The cost of this project was originally estimated at \$732,000.00. The actual development cost will obviously greatly exceed this estimate because the lowest bid received from general contractors was \$909,682.00. In this connection the State Housing Board recommended changes which would effect a saving of approximately \$76,000.00. A change order, making certain substitutions and deletions as suggested, was subsequently submitted in the amount of \$69,775.00. The construction contract and the change order were later approved by the Authority and the State Housing Board.

Action has been initiated to amend the Contract for Financial Assistance.

Project 200-2 - Deposit on Plans: It was noted that a certified check for \$50.00 dated December 11, 1950 was on hand in the office. This represented a deposit on plans from a subcontractor. As this subcontractor did not return the plans within the specified time, this deposit should be forfeited and the check should be deposited in the Development Fund to reduce the total development cost.

Project 200-2 - Land Purchase: The Authority has purchased nine parcels of land for this project. It was noted that each purchase was approved by the State Housing Board. The purchase of the tenth and last necessary piece of property is still pending.

Construction of Project 200-1-A: This project is actually a part of Project 200-1. Construction of it had been postponed due to the inability of the Authority to raze three wooden buildings which were standing on the lot of land acquired, because the tenants could

not find other living accommodations. When Project 200-2 was completed all tenants with the exception of four were moved to it. The remaining four tenants were apparently ineligible to move into a veterans' housing project and were finally moved into one remaining wooden building. Because no other residences could be found for these four tenants, six units had to be necessarily eliminated from the thirty units originally planned for construction.

In this connection attention is called to the fact that the income from these four apartments total only \$109.00 per month. While the monthly maintenance costs at the present time are less than this amount it is apparent that at some future date, because of the age and condition of this building, maintenance cost will exceed the income.

The Authority has tried to solve this problem in many ways. At one time an effort was made to sell the building to a private individual. The State Housing Board refused to approve this arrangement.

As the purpose of the Act does not appear to be the acquisition of old buildings for rental purposes, it is suggested that the State Housing Board advise the local Authority in this respect.

Rental Income: In connection with the tenants' rent charges for the four units in the aforementioned wooden building, it was noted that these rents are being paid in arrears at the end of each month. It is suggested that rent collections should be collected in advance at the beginning of each month, as the tenants in the other projects of the Authority are doing.

Repairs, Maintenance and Replacements: When the projects are occupied, a large part of the maintenance expenses will be for Repairs, Maintenance and Replacements. In this connection, this Authority should maintain a perpetual inventory of its tools and supplies. According to the Management Manual of the State Housing Board, an account numbered 1260, "Operational Stores", is suggested for the following purposes:

"There shall be included in this account supplies and materials purchased and held in storerooms where store systems are maintained, and where such stores are issued to projects as needed."

It is suggested, therefore, that in order to have a closer control on inventories and to be able to more accurately analyze maintenance charges, the State Housing Board should cause to be set up a control system for the proper handling of these items.

ATHOL HOUSING AUTHORITY

REPORT No. 51-H-64

Minutes of Meetings: It was noted that the minutes of the Authority's meetings are not being kept currently. This important record should always be available.

Accounts Payable Vouchers: It was also noted that the accounts payable vouchers were not approved by the Chairman of the Authority. In certain instances it was also noted that certain vouchers were not available for examination.

Development Fund: It was noted that this Authority has refused to sign a change order, calling for the removal of surface rock from the site at a cost of \$19,250.00 because removal of this rock was apparently called for in the basic contract. The Authority further contends that prior to the signing of the contract the contractor concurred with the board and the architect in this respect. It was noted however that the State Housing Board has advised the Athol Housing Authority to pay for this change order, and the Authority has indicated that they will do so only under protest.

It is suggested that this entire matter be completely reviewed before any disposition is made of the claim.

NORTH ADAMS HOUSING AUTHORITY

REPORT No. 51-H-65

Administrative Fund Income: Income for rental of houses occupied was not checked at this time because the project has been in "administration" for only about two months.

PITTSFIELD HOUSING AUTHORITY

REPORT No. 51-H-66

Federal Project: The financial records of the Federal Project were not examined

since they are subject to audit by Federal auditors.

Development Cost: Paragraph 2 of the Development Cost of Project, of the Contract for Financial Assistance dated October 7, 1948 between the Commonwealth of Massachusetts acting by and through the Chairmen of the State Housing Board and the Pittsfield Housing Authority reads as follows:

"Development Cost of Project: The cost of construction and development of the project (hereinafter called "actual development cost"), shall not exceed the aggregate principal amount of One Million, seven hundred fifty thousand dollars -- (\$1,750,000.00), (hereinafter called "maximum development cost"). If the Chairman shall, in his absolute judgement, determine that the actual development cost will exceed the maximum development cost, the Authority will promptly reduce the scope of the project to the extent and in a manner satisfactory to the Chairman so that the actual development cost will not exceed the maximum development cost. If the Chairman shall, in his absolute judgement, determine that the actual development cost will be less than the maximum development cost, he shall certify to the Authority such revised development cost of the project, and such revised development cost shall thenceforth constitute the maximum development cost of the project under this contract. In any event, the Authority agrees that it will develop the projects at the lowest practicable development cost. The Authority will furnish to the Chairman, at such time or times as he may require, an analysis of the actual development cost of the project broken down between dwelling facilities' cost, as such term may be defined by the Chairman, and all other costs of the project."

To the date of this audit the total cash disbursements for development costs totaled \$1,803,286.22. The records of the Authority indicate inactive accounts payable totaling \$8,267.27 bringing the total known development cost to \$1,811,553.49. This amount obviously exceeds the maximum development cost in the Contract for Financial Assistance by the amount of \$61,553.49 as of March 31, 1951. It is estimated that future commitments for landscaping will amount to approximately \$8,000.00 to \$10,000.00, increasing the excess to an estimated \$70,000.00.

To the date of audit, the excess of the actual development cost over the amount of the temporary note issue has been financed, in part, by transfers of funds in the amount of \$54,500.00 from the Administration Fund. These transfers were approved by the State Housing Board. It is suggested that this entire matter be reviewed by the State Housing Board.

MILLBURY HOUSING AUTHORITY

REPORT No. 51-H-67

Temporary Notes Outstanding: The outstanding notes shown in Schedule No. III were redeemed on April 10, 1951 and replaced by a Second Series issue of temporary notes in the aggregate amount of \$290,000.00. The Second Series notes were purchased by the Branch Banking and Trust Company of Wilson, North Carolina. The bid submitted by them was the most advantageous bid for the Town of Millbury. This bid calls for an interest rate of 6% with a premium of \$8,270.00 reducing the rate to a net of 1.0164%.

Rent Receipt Books: An inventory was taken of rent receipt books (pads), which consist of 10 unnumbered pads with 100 duplicate slips which are also unnumbered. These books are considered inadequate for auditing purposes and it was therefore suggested to the executive director that books and slips be pre-numbered.

Administration Fund Expenses: It was noted that no expenses for operation have been charged to the Administration Fund. These items probably were paid for through the Development Fund.

MEDFORD HOUSING AUTHORITY

REPORT No. 51-H-68

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended provides that Housing Authorities shall make an annual report in the month of January to various State and Municipal officials. It was noted that no report had been made by this Authority. This matter was discussed with the personnel concerned, and it is understood that the necessary steps are being taken to compile the necessary report.

Project 200-1 - Development Costs: It was noted that although this project originally

was planned to cost \$1,724,000.00 with a unit cost of \$11,493.00, it now appears that the actual final cost will total approximately \$1,588,000.00, with a unit cost of only \$10,587.00.

Permanent Financing: The initial operating period of Project 200-1 ended on March 31, 1951 the date of the current audit with the issue of bonds under so-called permanent financing. In this connection, it was noted that this bond issue at an interest rate of 1 7/8% with a premium of \$19,321.20 was in the aggregate amount of \$1,588,000.00. This amount represented the total development cost, less a part of the surplus from the operations during the initial operating period.

Title V - Petty Cash Fund Not Shown on Books: A cash box was found in the office containing currency in the amount of \$2.53 and paid vouchers totaling \$22.47, and was a Petty Cash Fund. It was found however, that this account had originally been charged out as expense. If this fund is to be continued it is suggested that the necessary accounts be opened in the general ledger for its control.

Chapter 372 - Operating Budgets Not Submitted as Required: Under Section 7 of Chapter 372, no expenditure is to be made by any city or town or by any housing authority board or officer acting as agent for such city or town in carrying out the provisions of Sections 4 and 6, or more than \$1,000.00 in any one year without the approval of the State Housing Board. In order to eliminate the necessity for processing individual requests for expenditures exceeding the stipulated \$1,000.00, the State Housing Board approves annual budgets for the operation of such projects. This apparently constitutes approval for making expenditures up to the limit of such budgets without further formality.

Attention is called to the fact that the project has been occupied since September of 1946 yet the Authority failed to submit an operating budget to December 31, 1946 as well as operating budgets for the 1947, 1948, 1949 and 1950 years. It was noted, however, that an operating budget for the 1951 year was submitted while this audit was in progress.

Attention is also called to the fact that the remodelling of this project was done under Chapter 13 of the Acts of 1946, which Acts was repealed by Chapter 372 of the Acts of 1946.

Title V - Operating Budget Not Submitted as Required: The operation of this project under Chapter 372 became effective as of April 1, 1950. It was noted, however, that the operating budget to December 31, 1950 had not been submitted to the State Housing Board. Attention is also called to the fact that the Authority did submit to the State Housing Board an operating budget for the year 1951, while the current audit was in progress.

Title V - Tenants' Security Deposits: It was noted in this connection that \$10.00 was in this fund, which should have been refunded to a tenant in October 1947. Although this tenant was evicted in July 1947, the balance of rent owed by him was paid in October 1947.

It was also noted that the additional amount of \$30.00 was held for tenants who had vacated owing rents, even though these accounts were charged off when the project was taken over by the City. It is suggested that the necessary steps be taken to adjust this account.

Materials and Supplies Inventory: It was noted that the Superintendent of Maintenance has recently begun the installation of an inventory control system, which it is hoped will be in effect in the near future.

Revolving Fund: It was noted that when individual projects reimburse this fund for their proportionate share of the expenses paid that no entries are passed through the accounts. It is recommended that reimbursements to this fund be properly reflected on the books of account.

MARBLEHEAD HOUSING AUTHORITY

REPORT No. 51-H-69

General - Annual Report not Submitted to the State Housing Board: In this connection it was noted that the annual report required under Section 26U of Chapter 121 of the General Laws, as amended, had not been submitted to the State Housing Board. Inasmuch as this report should have been submitted to the State Housing Board on or before January 31, for the previous fiscal year for the two previous years, it is advised that these reports be compiled and submitted as required.

Project 200-1 - Overpayment of Architect's Fee: It was noted that the overpayment to the architect of \$1,017.40, as discussed in the previous audit report, had been refunded

to the Authority.

Project 200-1 - Tenants' Leases: An examination of tenants' leases indicated that one tenant's rent had been reduced without executing a new lease or attaching a rider to the old lease. It is recommended that any changes in lease agreements be on some regular form.

Project 200-2 - Amended Contract for Financial Assistance: The original contract for financial assistance dated January 26, 1950 was for \$651,000.00. An increase in development costs during the first period of financing made it necessary to increase the development funds. On January 26, 1951, the original contract was amended to \$675,000.00.

Project 200-2 - Purchase of Land: As of the date of audit this project was approximately 81% complete. The land had been acquired by eminent domain. The price of this land has not been settled, and it is understood the matter is now in the hands of the court for adjudication.

NAHANT HOUSING AUTHORITY

REPORT No. 51-H-70

Permanent Financing: The serial bonds issued by the Authority are in bearer form, registrable as to principal only, or as to both principal and interest and are dated October 1, 1950. These bonds bear interest at the rate of one and three-quarters per cent payable on April 1 and October 1 in each year. The bonds of the Authority are denominated "First Series" and are payable at the principal office of the Fiscal Agent, The Second National Bank of Boston, or at the holder's option at the principal office of the Paying Agent, J. P. Morgan and Company, Inc., New York City, New York.

The bonds maturing on or after October 1961 are redeemable at the option of the Authority on October 1, 1960, or on any interest payment thereafter, at a redemption price of par plus accrued interest to date of redemption, plus a premium of three per cent of their par value if redeemed on or before October 1, 1965; or a premium of two and one-half per cent of their par value if redeemed thereafter, but on or before October 1, 1970; or a premium of two per cent of their par value if redeemed thereafter, but on or before October 1, 1975; or a premium of one and one-half per cent of their par value if redeemed thereafter, but on or before October 1, 1980; or a premium of one per cent of their par value if redeemed thereafter, but on or before October 1, 1985; or a premium of one per cent if redeemed thereafter. In the event that the bonds are called in the manner aforementioned and payment of the redemption price is duly made or provided for, interest thereon shall cease to accrue from and after the date of redemption.

BELMONT HOUSING AUTHORITY

REPORT No. 51-H-71

Deposits of Funds: It was noted that the rental income and the Tenants' Security Deposits are both being deposited in the Administration Fund Account. It is suggested that separate bank accounts be maintained for these two accounts.

Pay Roll Records: It was noted that there are no time sheets or other records which show the hours actually worked by employees of this Authority. It is suggested that steps be taken to provide detail of this nature.

Waiver of Rebate on Connection of Electric Stoves: It was noted that the Authority waived its rights to a \$10.00 per stove connection rebate to which it was entitled by contract. In this connection, it received an underground cable system at no additional cost.

Rent Receipts: In reconciling rent receipts to bank deposits, it was noted in certain instances that the deposits were not actually made on the date of the cash receipt. It was also noted that several rent receipts were not dated.

It is also suggested that the employee of the Authority collecting rents be bonded.

Petty Cash Fund: No properly approved petty cash vouchers, which indicated authorizations for purchases, were available. It is recommended that petty cash vouchers be used with the signature of the person authorizing the purchase.

Cash Receipts Register: It was noted that in certain instances the private accountant posts only the deposits of cash received in the bank deposit column in the cash book. The Tenants' Accounts Receivable account, Tenants' Security Fund account, or whatever ac-

count is applicable should also be posted.

Chapter 200 - Project 200-1 - Rent Due: It was noted that a total of \$1,461.50 was due for rent from tenants. It is suggested that some organized plan to effect collection of delinquent accounts should be put into operation.

Payments for Services Rendered: It was noted in certain cases that payments for services rendered were on occasions made three to four weeks in advance. It is advised that payment be made only after services have been rendered.

Architectural Contract: It was noted that the payments to the architect exceeded the fee submitted by the State Housing Board in the amount of \$11.28.

In the architect's contract no definite fee is indicated but a rate schedule is listed. The rate to be used is computed on the basis of the number and types of buildings constructed on the projects.

The local Authority apparently did not get the approval of the State Housing Board before making the final payment to this architect.

Permanent Financing: Although this project is fully completed and Part I of the Certificate of Completion has been approved by the State Housing Board, it is still under Temporary Financing. The reason indicated is that, no determination has yet been made by the local Authority and the State Housing Board, of the amount necessary to settle all land taken by the Authority.

Conditions of General Laws, Chapter 121: Section 26-O of Chapter 121 of the General Laws, reads as follows:

"... No member, agent, or employee of a housing authority shall, directly or indirectly, have any financial interest in any property to be included in, or any contract for property or materials to be furnished or used in connection with, any project of such housing authority. Whoever violates any provision of the preceding sentence shall be punished by a fine of not less than fifty nor more than one thousand dollars, or by imprisonment for not more than one month, or both."

In this connection it was noted that the Executive Director had received premiums for insurance policies issued to this Housing Authority.

It was also noted that the Authority had entered into a contract for building maintenance on the project in the amount of \$4,920.00 with a company, of which the former treasurer of the Housing Authority was the president.

General Guaranty: Section 7 of the General Conditions of the Specification for Construction of State-Aided Housing Project 200-1 Belmont, states:

"The contractor or his sureties shall remedy any defects in the work and pay for any damage to other work resulting therefrom which shall appear within a period of one year from the date of final acceptance unless a longer period is specified. The local authority will give notice of observed defects with reasonable promptness."

This Authority has paid to a certain "maintenance" firm various amounts for the installation of radiator valves, air valves, and quick vents. They have also purchased door bell buttons that were worn-out in as short a period as seven months. It would appear that items of this nature should have been taken care of by the general contractor.

Legal Services: It was noted that the Authority has engaged a different attorney to represent it in a suit against the heating and plumbing contractor. In this connection it was noted that when this project was started, a contract for legal assistance was entered into with other counsel. It would appear that this latter attorney should represent this Authority in all matters, at the fee stipulated in the original contract.

LYNN HOUSING AUTHORITY

REPORT No. 51-H-72

Tenants' Accounts Receivable - Temporary Housing: It was noted that the tenants' ledger included a non-cash item of \$102.00 which was credited to one of the tenant's accounts. There appeared to be no record in the minutes of the meetings of any authorization

for such a reduction. The Executive Director explained that the members of the Authority had agreed to reduce this particular account because of the tenant's financial incapacity. This entry of \$102.00 was an adjustment of six months rent charges.

It is suggested that hereafter the authorization for adjustments of any nature be properly recorded in the minutes of the meetings of the Authority.

Surplus Transfer - Temporary Housing: The amount of \$1,761.58, representing the balance of surplus reflected in the books of this account as of December 31, 1950, was paid to the City of Lynn by this Authority. As the City of Lynn is now the owner of this temporary housing, it receives any surplus arising from the operations of this project.

Tenants' Leases - Chapter 200 Projects: It was noted that several leases had not been signed by the lessees. This matter was brought to the attention of the Executive Director with the suggestion that the necessary signatures be obtained.

Bonds Authorized - Project 200-1: Serial bonds issued by the Authority under Permanent Financing are in bearer form, and are dated January 1, 1951. These bonds bear interest at the rate of 1 3/4%, payable semi-annually on January 1, and July 1, in each year. The bond bids were reviewed and it was seen that they were sold to the highest bidder. A premium of \$16,005.00 was involved.

These bonds are payable at the principal office of the Fiscal Agent, or at the option of the holder at the principal office of the Paying Agent.

Cash Account - Project 200-4: The Manual of Accounting Procedure issued by the State Housing Board stipulates that there shall be one cash account in the general ledger of each statutory project, with subaccounts for each bank account when a project has more than one bank account. As there was no such control account maintained in the general ledger, it is suggested that it be set up in conformance with this directive.

Contract for Financial Assistance - Project 200-4: A comparison of the budgeted cost for structures and the actual construction contract award, plus approved change orders, indicates that the amount of the contract for financial assistance now in effect will probably be insufficient to meet the obligations incurred by the Authority for the construction of this project. It was, therefore, recommended that immediate steps be taken to obtain State Housing Board approval of an adjustment of this contract so that the Authority may arrange for additional financing.

Change Orders - Project 200-4: An analysis of the change orders indicated that all of the approved changes had not been recorded in the books of account. As these changes are important since they affect the liability of the Authority on the construction contract, they should be forthwith set up in the accounts.

Plastering Contract - Project 200-4: Attention is called to the fact that change order 3 represents the difference between the lowest and second lowest bid received on the plastering contract. In this connection, it was noted that prior to the award of the construction contract, the lowest bidder notified the Chairman of the Authority that because of a clerical error the bid proposal which he submitted was understated by \$100,000.00 and requested that his bid proposal be corrected to this extent. It was also noted that the Chairman of the Authority informed the members that he had discussed the matter with the State Housing Board and the attorney for the Authority who advised him that the proper procedure would be to consider the written bid binding and make the award on this basis. The low bidder could then either accept or refuse the award of the contract in the regular course of events.

The general contractor sent a notice of the award by registered mail to the lowest bidder at his known address. The notice was returned to the general contractor by the Post Office Department because of inability to make delivery, whereupon the Authority voted to reject this award and awarded the contract to the second lowest bidder.

The Authority is holding the bid bond of \$15,000.00 submitted by this lowest bidder and has brought legal action for damages.

NEW BEDFORD HOUSING AUTHORITY

REPORT No. 51-H-73

General Local Fund: This Authority received \$3,800.00 from the City of New Bedford in 1939 for preliminary expenses of the Authority. This money was an outright grant and is not subject to reimbursement.

According to the Executive Director, disbursements were made from this fund for travel and other miscellaneous expenses over the past eleven years.

There is a separate bank account for this fund, known as the Local Fund, and as of March 31, 1951, it was understood that the balance on deposit was \$1,112.32.

This account was not examined in connection with this audit.

General - Blanket Position Bond: It was noted that the blanket position bond covering the Federal project was increased during the audit period to include the check signer and the counter-signer. It was noted that a portion of the premium on this bond was erroneously prorated among the Chapter 200 projects. This matter was brought to the attention of the Authority personnel and steps are being taken to reimburse the proper projects.

Revolving Fund: During the period under audit this Authority established a revolving fund for the payment of joint expenses of the various projects.

In order to provide the cash, each project advanced money which was deposited in a so-called Revolving Fund bank account.

During the month combined expenses are paid from this fund and at the end of the month, the several projects reimburse the fund for their proportionate share of the expenses. Whenever possible, these expenses are charged on the basis of applicability. Where such distribution does not appear to be proper, an allocation is made on the basis of the number of units.

Project 200-1 - Permanent Financing: The initial operating period for this project began on April 24, 1950, the date of the first tenancy, and ended December 31, 1950, with the issue of bonds ending the so-called temporary financing. In this connection, it was noted that the bond issue at an interest rate of $1\frac{3}{4}\%$ with a premium of \$14,896.00 was in the aggregate amount of \$960,000.00, the total net development cost of the project.

It was also noted that the management accounts for the initial operating period were closed on December 31, 1950, and new accounts under permanent financing were opened as of January 1, 1951.

Project 200-2 - Change Orders: It was noted that Change Order No. 1 in the amount of \$17,000.00 was not properly reflected on the books of account and that, consequently, the general ledger balances for "Contract Awards" and "Incompleted Contracts" were understated by that amount. This item was, however, included with the total Development Costs figures.

Project 200-3 - Permanent Financing: The initial operating period for this project began on May 26, 1950, the date of the first tenancy and ended on March 31, 1951. The management accounts for the initial operating period were closed on March 31, 1951. In this connection, the so-called permanent financing began on April 1, 1951 with the issue of bonds at an interest rate of $1\frac{7}{8}\%$ with a premium of \$9,697.10 in the aggregate amount of \$797,000.00, the total net development cost of the project.

GREENFIELD HOUSING AUTHORITY

REPORT No. 51-H-74

Title V: The transactions for this account were examined only for the period from May 31, 1950, the date of relinquishment and transfer of the project to the Town of Greenfield. All transactions prior to that date were examined by Federal Auditors.

The dwelling units of this project had been dismantled and were all sold as of the date of this audit. When the former site is cleaned up in the near future the surplus funds will be paid to the Town of Greenfield.

Chapter 372: It was noted that the number of dwelling units available for rental were reduced by two. One of these dwelling units was demolished in June 1950 and the other was returned to the Town of Greenfield on January 1, 1951.

Chapter 200 - Permanent Financing: The initial operating period for this project ended on December 31, 1950 with an issue of bonds under permanent financing. In this connection it was noted that the bond issue at an interest rate of $1\frac{3}{4}\%$ with a premium of \$12,416.00 was in the aggregate amount of \$802,000.00 the total Development Cost less a part of the operating surplus for the initial operating period. These bonds were sold to the First National Bank of Chicago and Associates who was the highest bidder of record.

The Greenfield Housing Authority is to pay into its Debt Service Fund through its Fiscal Agent, the National Shawmut Bank of Boston, each year from rental income an amount

which together with the amounts received from other sources will equal the years' total debt requirement. This amount is to be paid in ten monthly payments, 1/12 of the total to be paid on or before the 15th of the month in each of the first nine months and the balance to be paid on or before the 15th day of the 10th month of each year.

Investments - Debt Service Trust Fund: In order to lower the net interest cost of the bond issue, the Greenfield Housing Authority has invested with the approval of the Chairman of the State Housing Board, \$10,000.00 of the bond premium received in U. S. Treasury Notes also bearing interest at 1 3/4%.

WEBSTER HOUSING AUTHORITY

REPORT No. 51-H-75

Records Missing - Development Fund: Change order #1 was not available at office of Authority for use in connection with this audit. The contract for Architectural Services was also not available for examination in connection with this audit. These records, which are important, should be on file with the Authority.

Administration Fund Records: This project began occupancy during April 1951 and on the date of audit, the other units were in the process of being rented. The cash on hand was balanced and checked to rent receipt stubs. It was understood from the Chairman of the Authority and the Executive Director that an Administration Fund account would be opened in the near future.

Rent Receipt Books: It is suggested that rent receipt books with numbered slips be made available.

Annual Report: No annual report had been submitted as of the date of audit, as is required by the Manual of Accounting Procedure issued by the State Housing Board.

GARDNER HOUSING AUTHORITY

REPORT No. 51-H-76

Accounting Records: Because the accounting records of this Authority are not being maintained currently, certain schedules ordinarily assembled in connection with audits of this nature were not prepared at this time.

Financial Reports - Form #70: Certain monthly financial reports were not on file at the Executive Director's office for use in connection with this audit.

Temporary Notes: The bids on the sale of temporary notes on Projects 200-2 and 200-3 were not available for auditing purposes.

Contract Bid on Project 200-3: It was noted that the low bid of \$348,687.00 submitted by Frankini Construction Company was \$5,687.00 in excess of the authorized notes which were in the amount of \$343,000.00.

Rent Income - Project 200-2: Rents and security deposits are being collected in advance of occupancy. This account was balanced and checked to a trial balance taken of names on the duplicate rent receipts. This project is expected to go into rent in June 1951, according to the Executive Director.

Architectural Services Contract: This contract calls for a flat fee of \$11,375.00. Payments through April 30, 1951 have totaled \$14,795.83 or \$3,420.83 in excess of the amount set forth in the contract. This excess was explained by the Executive Director and the Architect by reference to page 5, paragraph (j) of the contract which reads in part:

"If Architect is caused extra drafting or any additional drawings required to properly relate stock plans of housing units to special site conditions and any changes required by local or State Housing Authority . . ."

It is suggested that the matter be brought to the attention of the State Housing Board. It is further suggested that the architect be required to furnish attested information with respect to the amount of "extra" work performed.

LOWELL HOUSING AUTHORITY

REPORT No. 51-H-77

Annual Report: Section 28U of Chapter 121 of the General Laws, as amended, provides that the housing Authorities shall make an annual report in the month of January to certain State and municipal officials. It was noted that no report of this nature had yet been made for the years 1949 and 1950. It was further noted that very few monthly reports have been sent to the State Housing Board since the project began. It is, therefore, recommended that the necessary steps be taken to prepare and submit these reports as soon as is practicable.

Discounts not Realized: Several instances were noted of discounts not being realized because certain bills were not approved for payment by the members of the Authority in sufficient time to take advantage of the discount terms. An effort should be made to process these bills for payment much more promptly as losses of this nature are unnecessary.

Establishment of a Revolving Fund: It was noted that most of the disbursements made which involved expenses applicable to more than one project, are made from the Administration Fund of the Federally-owned project Mass. 1-1. It is recommended that a revolving fund be established and maintained for these purposes, and for which a separate General Ledger, Cash Disbursements Register and Cash Receipts Register should be maintained. At the end of each month the disbursements made from this fund would be analyzed and checks drawn from the accounts of each of the several projects involved to reimburse this fund.

Minute Book: It was noted that a necessary "Waiver of Notice and Consent to a Special Meeting" was not signed by all the members of the Authority.

It was also noted that although at the April 6, 1951 meeting of the Authority it was voted to turn over to the City of Lowell a check for \$34,370.70 for the account of Title V-19105, it had not been done as of April 30, 1951, the date of audit. This amount is made up of the following items as of December 31, 1950:

Reserve for deficit	\$24,638 84
Earned Surplus	9,731 86
	<u>\$34,370 70</u>

Books of Accounts of Authority Kept by Authority's Accountant: This examination was initiated on May 2, 1951. At that time, it was found that the cash books and ledgers pertaining to the various projects had not been posted since December 31, 1950. After counting the cash and asking the accountant to obtain the bank statements on the various accounts, it was deemed necessary to suspend this phase of the audit until the records could be currently posted.

The following indicates the various books of record together with the respective dates on which they were finally made available for audit:

Chapter 200 - Project 200-1 Development	May 9, 1951
Chapter 200 - Project 200-1 Administration	May 23, 1951
Title V-19105 - Administration	June 6, 1951
Master Fund - Federal Books	June 15, 1951
Pay Roll Fund	June 22, 1951

In connection with the foregoing, it was noted that the accountant had a full-time assistant from July 7, 1950 to March 2, 1951, and a part-time assistant has been available to him since that date.

General: It was noted that a check drawn on the Project 200-1 Administration check book to reimburse the Development Fund for expenses paid out of Development for Administration, was made payable to the Administration Fund in error. This matter had not been adjusted to the date of audit.

It was also noted that the Internal Revenue Exemption Certificate, Form W-4 had not been completed by fourteen employees currently employed. It is recommended that this form be prepared by all such employees, so that proper authorization for the necessary withholding tax is available in the Authority's office.

It was noted that check book stubs were left entirely blank and no balances were being

brought forward. It is recommended that all check stubs be completely entered with the necessary detail. The bank balance should be currently brought forward after each page of transactions.

It was noted that a Change Fund was set up in the Development Books under the caption of Accounts Receivable Sundry. It is recommended that this fund be set up in the Administrative Books with its proper title.

Return of Security Deposits: Two checks were found in the desk of the Authority's accountant, as follows:

Check #195 Dated January 31, 1950 Payable to the Lowell Housing Authority	\$2 55
Check #196 Dated January 31, 1950 Payable to a former tenant	2 45
	<u>\$5 00</u>

Inquiry developed the information that this former tenant moved out and was apparently charged \$2.55 for damages to his former apartment. These checks were written to pay for the damage and to return the balance of his security deposit to him. For some reason, the checks were misplaced and the transaction was never consummated. It is suggested that steps be taken to make the necessary refunds.

It was also noted that the security deposit of another former tenant was still on hand. It was explained that the deposit was not returned because the present address of the former tenant is not available.

Submitting of Operating Budget - Title V-19105: Under the terms of Sections 4 and 6 of Chapter 372, each Housing Authority is required to submit to the State Housing Board for approval an operating budget for each year of operation before any expenditures can be made.

The budget for the calendar year 1950 was submitted by this Authority on February 16, 1951, when the budget for the 1951 calendar year was also submitted. These budgets were probably submitted as the result of a letter dated January 10, 1951, from the State Housing Board which specifically requested them.

Petty Cash - All Projects: It was noted in the counting of petty cash that funds set up under this account for Mass. 1-1, Title V-19105, and Project 200-1 were intermingled in one envelope. It is recommended that the petty cash of each project be separately handled.

Rental of Power Saw - Project 200-1: It was noted that when the Central Office was being remodeled a power saw was rented for a period of 38 days at \$2.50 per day or a total of \$95.00. In this connection it was noted that this saw was rented by one of the carpenters employed on that particular job.

Rental of Chairs and Table for Tenant Selection - Project 200-1: It was noted that a total of \$100.06 was paid over a period of eight months for the rental of chairs and tables for the use of the Tenant Selection Department in interviewing applicants.

Proration of Central Office Expenses: By vote of Authority, the Central Office expenses are now prorated as follows:

Chapter 200 - Project 200-1	26%
Title V-19105	26%
Mass. 1-1	48%
	<u>100%</u>

Chapter 200 - Project 200-1, Legal Contract: In this connection, it was noted that the contract with the Authority's attorney was still unsigned as of the date of audit, although payments have been currently made to this attorney for services rendered in connection with this project.

Central Office Alterations: It was noted that space for the Central Office was rented at a cost of \$1,800.00 a year with a lease running for a period of five years, with a renewal clause. This is payable at the rate of \$150.00 per month, beginning the first day of October,

1950. It was further noted that before occupancy, it was necessary to expend for alterations a total of \$4,246.40.

It was also noted that in the present Central Office there appears to be no means of protecting books of account in the event of fire. It is suggested that steps be taken to safeguard these records.

Chapter 372 - Title V-19105: It is suggested that the general ledger accounts for #3000 Operating Income and #4000 Operating Expenses be broken down as follows:

#3100	Dwelling Rent Schedule
#3200	Dwelling Vacancy Loss
#3500	Miscellaneous Project Income
#4100	Management
#4200	Operating Services
#4300	Utilities
#4400	Repairs, Maintenance and Replacements
#4700	General Expenses

It was noted that the annual rental for the use of the land on which this project is located is paid to the City of Lowell. A further charge is paid in the form of taxes when the assessment is made on both the land and buildings.

Land Rental is computed at the rate of \$1.25 per apartment, per month, or a total of \$4,335.00 annually. The taxes on the land and buildings totaled \$24,189.30 for 1950, based on the following assessments:

	<u>Apartments</u>	<u>Building Assessments</u>	<u>Land Assessments</u>	<u>Total</u>
Colman Playstead	152	\$182,400 00	\$45,600 00	\$228,000 00
Gorham Street	16	19,200 00	4,800 00	24,000 00
Ottawa Street	22	26,400 00	6,600 00	33,000 00
Prince Street	28	33,600 00	8,400 00	42,000 00
Woodward Avenue	71	85,200 00	21,300 00	106,500 00
	<u>289</u>	<u>\$346,800 00</u>	<u>\$86,700 00</u>	<u>\$433,500 00</u>

The 1950 tax rate was \$55.80.

Pay Roll: Certain discrepancies were noted in connection with checking the pay rolls. For the week ending March 21, 1951, although the pay roll item should have been \$12.25, check #397 was drawn in the amount of \$24.50. On the same date a pay roll item totaled \$22.25, yet check #398 was drawn in the amount of \$10.00. It was determined that the errors had been noted by the individuals concerned and they have individually adjusted the matter by a cash transaction. The Authority had no record of the entries involved.

It was further noted that on March 3, 1951, the pay roll record indicated an amount due of \$22.35 for which check #304 in the amount of \$21.00 was drawn. On March 24, 1951 the pay roll record indicated an amount due for which check #417 in the amount of \$43.88 was drawn. Another pay roll item of \$45.36 was noted on which check #418 was drawn in the amount of \$43.06. On this date, there was also a pay roll item due of \$47.68 for which check #419 was drawn in the amount of \$45.08. The accountant for the Authority could not explain these discrepancies, but it was indicated that he would take immediate steps to adjust these differences in underpayments.

PLYMOUTH HOUSING AUTHORITY

REPORT No. 51-H-78

Fidelity Position Bond Coverage: It was noted that the members and employees of the Authority were not bonded on the date of audit. A position bond covering check signers and countersigners expired on September 30, 1950 and was not renewed and apparently no coverage in this respect has been afforded since that date. During the course of this audit, application was made to the State Housing Board for bond coverage under the State Blanket Position Bond for all members and employees of the Authority.

Tenants' Security Deposits: This Authority does not appear to require security deposits of its tenants.

Payments to General Contractor: It was noted that the general contractor included in the latest "Periodical Estimate of Partial Payment" additions of change orders totaling \$6,621.41 instead of the correct amount of \$6,121.41. This error which was in computation resulted in a \$500.00 overpayment to the contractor and created an adjusted contract price of \$394,071.84 instead of \$393,571.84, which it should have been.

It is recommended that the contract price be corrected and that the \$500.00 overpayment be deducted from the balance of the Contract Retentions account. As the books of the development period have been closed, the offsetting credit will be to the Operating Reserve.

Contract for Architectural Services: This contract was examined and the percentages shown in the tables attached to the contract were applied to the final construction award. On this basis the resultant fee should have been \$12,945.97. The actual payments to the architect which were approved by the State Housing Board under date of August 23, 1950 totaled \$21,700.00, representing an overpayment of \$8,754.03. In this connection attention is called to the fact that the State Housing Board approval indicated a 5.62% rate for all structures. This is the A-Rate taken from Table I of the rates attached to the contract. Said A-Rate is defined as follows:

"The A-Rate applied to two story row houses and for flats of not less than four family units in a single building and having a variation of not more than six different dwelling types in a single given project."

The following is taken from Table IV of the tables attached to the contract

"Single Family Houses and Duplex Houses Architect Fees:

The fees to be paid for complete architectural services in accordance with Part III, Article I of the contract shall be 10% of the proportion of a bona fide construction bid, as it involves structures allocable to:

- 2 units for projects up to 29 units
- 3 units for projects up to 39 units
- 4 units for projects up to 49 units
- 5 units for projects up to 59 units
- 6 units for projects of 60 units and larger.

To this shall be added \$100.00 a unit for the remainder of the first 20 houses and \$50.00 a unit thereafter."

This project consists of 17 buildings, three of which are row houses of four apartments each and the other 14 are duplex houses. In accordance with the terms of the contract, it would appear that the A-Rate should have been applied to the row houses and the rates of Table IV to the duplex houses.

It is therefore recommended that the State Housing Board recompute the architect's fee in accordance with the tables attached to the contract, and take immediate steps to attempt to collect the apparent overpayment.

Change Orders: Several items were noted in connection with the audit of the contract change orders. These included the following:

- (a) Change Order No. 3 has not been approved by the State Housing Board. Attention was called to this matter in the previous audit report, but no action has been taken to date.
- (b) Change Order No. 19 was approved by the Architect and the Construction Adviser, but it was not approved by the Authority because it was thought that the cost was excessive. The Chairman understood that the contractor was to lower the amount of this change order. This has not been done to date.
- (c) Change Order No. 4 was not available for audit and it is therefore not known whether it has been approved.

It is suggested that these irregularities be corrected forthwith.

Permanent Financing: The initial operating period of the project began July 19, 1950, the date of the first tenancy, and ended March 31, 1951 with the issue of bonds ending the so-called Temporary Financing. It was noted that the bond issue at an interest rate of 1 7/8% was in the amount of \$447,000.00, the total development cost of the Project.

It was noted also that the administration accounts for the initial operating period were closed on March 31, 1951 and the new accounts under permanent financing were opened as of April 1, 1951.

It was seen that provisions were made to retire the bonds in accordance with the Debt Service Schedule. The Debt Service Requirement for the first fiscal year ending March 31, 1952 is \$16,381.25 and is to be made up as follows:

Commonwealth Contribution (2 1/2% of Development Cost)	\$11,175 00
Accrued Interest on Bonds	582 03
2 1/2% of Bond Premium	135 97
Authority's Share	4,488 25
	<u>\$16,381 25</u>

NORTH ATTLEBORO HOUSING AUTHORITY

REPORT No. 51-H-79

Bonds: It was noted that fidelity bonds for members of the Authority and all other persons who handle funds had not been obtained as recommended in the previous audit report.

Suits Pending: It was noted that there were two legal suits pending involving this Authority as follows:

Authority vs. Ferris and Mahoney-Default on Bid - Re sub - Contract for plumbing.

Annie and Ernest Upham vs. Authority-Suit over land taken by eminent domain

DALTON HOUSING AUTHORITY

REPORT No. 51-H-80

Project 200-1 - Permanent Financing: The Initial Operating Period for this project, ended on September 30, 1950 with the issue of bonds under so-called Permanent Financing. In this connection it was noted that the bond issue at an interest rate of 1 3/4% with a premium of \$194.00 was in the aggregate amount of \$194,000.00, the total Development Cost less the amount of the surplus of the Initial Operating Period. These bonds were awarded to Phelps, Fenn and Co., and Associates who was the highest bidder of those seen.

The Dalton Housing Authority is to pay into its Debt Service Fund through its Fiscal Agent each fiscal year from rental income an amount which together with the amounts received from other sources will equal that fiscal year's total debt requirements. This amount is to be paid in 10 monthly payments 1/12 of the total to be paid on or before the 15th of each of the first nine months and the balance to be paid on or before the 15th of the 10th month.

Commonwealth Contribution: The Dalton Housing Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, the first subsidy payment in the amount of \$4,850.00 (2 1/2% of the total development cost.) This payment was made by the Commonwealth directly to the Dalton Housing Authority's Fiscal Agent, the Second National Bank of Boston.

Check Register: It is recommended that a check register be installed for all checking accounts or that the bank balances be shown as they develop in the check book.

Rent Roll: It is recommended that a Rent Roll be set up to support the charges in the Accounts Receivable Control Account as prescribed by the Accounting Manual issued by the State Housing Board.

Rent Receipts: It is further recommended that rent receipts used by the Authority be pre-numbered by the printer and that these receipt numbers be entered in the cash book as prescribed in the Manual of Instructions issued by the State Housing Board. It is also suggested that the amount of the cash received should be entered on the stub of the receipt book.

Financial Records and Documents: In several instances, documents and letters pertinent to financial matters of the Authority were not available for use during this audit. Certain accounting records of the Authority were not currently posted. It is recommended

that in the interests of good accounting the Dalton Housing Authority install an orderly system of filing. It should also compile a document file in compliance with the instructions issued by the State Housing Board in its accounting manual. These matters should be corrected forthwith.

Bonding: The check signer and the counter check signer are the only two members of this Authority who are bonded. It is recommended that a Blanket Type of Bond be obtained through the State Housing Board which will cover all members of the Dalton Housing Authority.

CHICOPEE HOUSING AUTHORITY

REPORT No. 51-H-81

Title V: A trial balance of accounts receivable and security deposits was taken as of April 30, 1951. Verification notices were sent to tenants with outstanding balances as of April 30, 1951.

It was noted that the cash book journal and general ledger of this project are not being maintained currently. The books have only been entered through December 31, 1950; therefore, the audit of this project was not completed. It is suggested that immediate steps be taken to bring their accounts to a current basis.

Administration Fund - Chapter 200: The administration fund agreement was checked for approvals and for conformance with its contents.

A trial balance of accounts receivable and security deposits was taken as of April 30, 1951. Tenants with outstanding balances were sent verification notices.

Although this project began occupancy in December 1950, no records have yet been opened to record the transactions. This was brought to the attention of the Executive Director, who indicated that these entries will be made as promptly as possible. The audit of these accounts was, however, not completed in connection with this current examination.

Development Fund - Temporary Notes - 3rd Series: The 3rd series, Temporary Notes of the Chicopee Housing Authority were sold to Phelps Fenn & Co., R. W. Pressfrich & Co., and Eastman, Dillon & Co.

Their bid of 6% on the aggregate amount of \$2,200,000.00 Temporary Notes with a premium of \$108,944.00 reduced the interest rate to a net rate of 1.048% and was the most advantageous bid of all bids seen.

Annual Report: Annual reports to State Housing Board were not on file and was, therefore, not checked in connection with this audit.

MANSFIELD HOUSING AUTHORITY

REPORT No. 51-H-83

Status of Project: This project was in the preconstruction stage on date of audit, April 30, 1951. Bids for construction were opened subsequent to this date.

Fidelity Position Bond Coverage: It was noted that the members and the accountant of the Authority were not bonded. It is recommended that an application be made to the State Housing Board for bond coverage for these individuals under the State Blanket Position Bond.

Investments: In order to lower the net interest cost involved in the construction of a project, the State Housing Board has advised local housing Authorities to invest excess funds in United States Treasury Bills. In this connection it was noted that the investments of the Mansfield Housing Authority had matured on April 26, 1951 and had not yet been re-invested, on May 21, 1951.

Unearned Discount on Investments: It was noted that this account had a balance of \$637.17 which represented the unearned discount on investments when they were purchased. On the date of maturity, April 26, 1951, these earnings should have been credited to the development cost account to offset the interest charges on temporary notes.

HOLYOKE HOUSING AUTHORITY

REPORT No. 51-H-84

Federal Projects: The financial records of the Federal Projects Mass. 5-1 and Mass. 5-2 were not examined at this time. Although the Authority has financed these projects through its own bonds, it receives a subsidy from the Federal Government under Public Laws 671 and 412. Because of this subsidy, these projects are subject to regular audit by the Fed-

eral auditors.

Subsidy - 372: As provided in Chapter 372 of the Acts of 1946, as amended, the city is to receive a total of 10% of the actual development cost of the local project, payable at the rate of 2% per annum for a period of five years. To the date of audit, the City of Holyoke had received from the Commonwealth a total of \$33,035.52 representing three payments of \$11,011.84 each. These payments were based on total actual development costs of \$550,591.81 which had been previously approved by the State Housing Board.

Insurance - 372 - 200: It was noted that automobile liability and workmen's compensation insurance coverage is applicable to these projects under policies issued to the Holyoke Housing Authority. As these policies protect all projects under the jurisdiction of this Authority, the insurance cost is prorated on a per unit basis.

Administration Fund - 200: The Administration Fund bank account was not opened until May 1951. Previous to that time the cash receipts and disbursements of this fund had been combined with those of the Development Fund.

Chapter 372 - Excess Revenue to City of Holyoke: Attention is called to the fact that while the audit was in progress the sum of \$19,775.05 was turned over to the City of Holyoke. This amount represented the surplus for the 1950 calendar year. In this connection it was noted that the excess revenue on hand as of the date of audit totaled \$26,817.83.

FRANKLIN HOUSING AUTHORITY

REPORT No. 51-H-85

Project 200-1 Development Costs: It was noted that although this project was planned to cost \$300,000.00 with a unit cost of \$10,715.00, it now appears that the actual final cost will amount to \$280,000.00, with a unit cost of approximately \$10,000.00.

Permanent Financing: The initial operating period of this project ended on December 31, 1950, with the issue of bonds under so-called permanent financing. In this connection, it was noted that the bond issue at an interest rate of 1 3/4% with a premium of \$4,348.00 was in the aggregate amount of \$280,000.00. This amount represented the total development cost, less a part of the surplus from the operations during the initial operating period.

FALMOUTH HOUSING AUTHORITY

REPORT No. 51-H-86

Total Development Costs: It was noted that although the estimate of cash requirements and the contract for financial assistance were originally in the amount of \$534,000.00, the final contract for financial assistance was set up in the amount of \$547,000.00. The increase was occasioned by estimated additional charges in the Development Costs accounts of December 31, 1950 when Permanent Financing became effective, as follows:

Contract	\$10,384 14
Architect's Fee	2,500 00
Bond Costs	1,200 00
Tools, etc.	300 00
State Housing Board Fees	101 21
	<u>\$14,485 35</u>

The foregoing increased the actual Development Costs from \$534,315.53 to \$548,800.88. This contract for financial assistance was adjusted by the Chairman of the State Housing Board.

Permanent Financing: The initial Operating Period of this project started June 1, 1950, the date of the first tenancy, and ended December 31, 1950, with the issue of bonds ending the so-called Temporary Financing. In this connection, it was noted that the bond issue at an interest rate of 1 3/4% was in the aggregate amount of \$547,000.00, the total adjusted Development Cost of the project, with a premium in the amount of \$8,454.00.

Contract Awards: As of May 31, 1951, the total construction contract totaled \$486,824.24, and the contractor had been paid as of that date the sum of \$485,924.84.

In addition, there was reflected an account payable to the contractor of \$994.10 and accounts receivable from the contractor of \$380.20, so that the total contract charges totaled \$486,538.74.

BARNSTABLE HOUSING AUTHORITY

REPORT No. 51-H-87

Chapter 372 - Charge-Offs Uncollected Accounts Receivable: During the period under audit ten accounts receivables totaling \$1,161.00 were charged off as uncollectible. No authorization for such action was noted in the minutes of meetings of the Authority.

It is recommended that these and all subsequent charge-offs be substantiated by formal approval of the Authority.

Chapter 372 - Security Deposits: It was noted that \$30.00 of the balance in the Security Deposits account as of the date of audit represented monies belonging to persons who are no longer tenants of the project.

Steps should be immediately taken to return this money to the proper parties.

Chapter 372 - Deposits of Collections: It was noted that rent receipts are not being deposited until considerable length of time after collection had elapsed. In this connection it was noted that as of the opening day of this audit, receipts totaling \$416.75 representing collections covering the period from May 12, 1951 to June 2, 1951 had not been deposited.

This situation was brought to the attention of the Chairman of the Authority. It is suggested that all funds be deposited within a more reasonable time.

Chapter 372 - Fire Insurance: As of the date of the audit the Chapter 372 project was not insured against fire.

It is advised that the necessary coverage be obtained forthwith.

Chapter 372 - Surplus: It was noted the balance in the surplus in this fund as of December 31, 1950 totaled \$1,183.30 and increased to \$3,845.69 on May 31, 1951.

It was further noted that no payment has yet been made to the Town of Barnstable from this surplus during the period covered by this audit.

Chapter 200 - Monthly Financial Reports: Attention is called to the fact that monthly financial statements have not been forwarded regularly to the State Housing Board. It was noted, however, that in May 1951 a financial statement was submitted covering a year's period.

It is advised that these statements should be submitted monthly in conformance with the directive of the State Housing Board.

Chapter 200 - Tenants' Ledger and Security Deposits Ledger: It was noted that no tenants' accounts receivable ledger or tenants' security deposit ledger is being maintained in conformance with the Manual of Instructions issued by the State Housing Board.

Chapter 200 - Change Orders: Attention is called to the fact that change orders bearing the required signature of the Chairman of the State Housing Board could not be located in the office of this Authority. These files are very important and should be at all times available for examination. It is therefore suggested that copies be obtained so that they may be used in connection with the next examination.

Chapter 200 - Contract Award: It was noted that the total cash paid to the contractor together with the amount of the contract retentions as indicated by the Authority's records to May 31, 1951 totaled \$327,398.39. There was still a balance owing in this account as of the date of audit in the amount of \$736.00 making a total contract cost of \$328,134.39.

It was further noted, however, that the total adjusted contract as of that date totaled \$329,105.39. The difference of \$971.00 was attributed to an error in the payments to the contractor on periodical estimate dated November 1, 1950, which it is understood will be adjusted.

Chapter 200 - Materials Stored Inventory: It was noted that the books of account reflected a balance of \$5,667.00 in the materials stored inventory account on the date of audit. However, as of May 31, 1951 there was no materials stored on hand.

This condition was occasioned by the entry for the payment on periodical estimate No. 7 not reflecting the use of the materials stored as indicated on that estimate and to the fact that on periodical estimate No. 7 a credit for a previous inventory in the amount of \$6,638.00 was taken in establishing the net payment instead of the actual inventory in the amount of \$5,667.00 as shown on the previous periodical estimate.

Chapter 200 - Undetermined Receipts: It was noted that in November 1950 a cash receipts totaling \$30.00 was deposited in the Development Fund bank account.

Although these deposits were credited to "Interest during Development" account its source could not be definitely determined.

It is suggested that steps be taken to make the necessary adjustments.

Chapter 372 - Sale of Buildings: As of the date of the previous audit this project, which was originally paid for with the Federal Funds included 38 Quonset Huts and one small wooden frame building which was used as an office building.

During the period covered by this examination the following two units were sold without competitive bidding with the approval of the Authority:

Office Building	\$200 00	
Quonset Hut, Including Electrical and Plumbing Fixtures	500 00	<u>\$700 00</u>

EASTHAMPTON HOUSING AUTHORITY

REPORT No. 51-H-88

Accounts Receivable - Rents: It was noted that this Authority had an unusually high percentage of delinquent rents. The total balance overdue totaling \$782.56, represents approximately 63% of the total monthly income. These accounts were aged as follows:

Less than one month overdue	6 tenants
One month overdue	3 tenants
Two months overdue	3 tenants
Three months overdue	1 tenant
Four months overdue	1 tenant

It is suggested that immediate steps be taken to bring and keep these accounts on a current basis.

Architect's Fees: The previous audit report commented on the basis for payment of the architect's fee. In this connection it was noted that the Chairman of the State Housing Board in a letter to the Easthampton Housing Authority, dated June 26, 1950, stated that in view of the fact that the architect had designed row type houses that were subsequently abandoned in favor of single houses, and because the architect's contract was not revised taking this change into consideration, there was consequently no objection on his part to making payment to the architect based on Annex "B" ("A" Rate) of the contract.

In view of the fact that the amount involved is \$6,593.79, it is recommended that the Easthampton Housing Authority submit the architect's contract and other facts to the Attorney General for his opinion.

AUDIT OF METROPOLITAN TRANSIT AUTHORITY AND RELATED AGENCIES

Audit of Metropolitan Transit Authority: Chapter 675 of the Acts of 1949 provides as follows:

"Chapter 544 of the acts of 1947 is hereby amended by striking out section 12 and inserting in place thereof the following: SECTION 12. The trustees shall determine the character and extent of the services and facilities to be furnished, and in these respects their authority shall be exclusive and shall not be subject to the approval, control or direction of any state, municipal or other department, board or commission. Except as herein otherwise provided, the department shall have the same general supervision and regulation of, and jurisdiction and control over, the services and facilities of the authority as it has over street railway companies. The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits. The state auditor may employ such auditors, accountants and other assistants as he deems necessary for carrying out his duties under this section, and chapter thirty-one of the General Laws and the rules made thereunder shall not apply to such employees."

A complete report of an audit of the accounts of the Metropolitan Transit Authority for the calendar year ending December 31, 1950 was issued on August 9, 1951. In order that our audit might be comprehensive and complete separate examinations of the accounts of the Boston Metropolitan District and the Transit Mutual Insurance Company were also completed and reports issued.

Legislative Recommendations: We have come to the conclusion that there can be no improvement in Railway finances or abatement of the continual and controversial discussion of MTA deficits until the cities and towns of the District have some measure of control over the finances of the Railway. All but a minor fraction of the income of the Railway comes from these cities and towns through fares and deficits, and particularly in the matter of deficits, the present arrangement gives a power to the Authority which violates a basic precept of our form of government - the power to tax without representation. We strongly urge the creation of a Metropolitan Finance Council composed of a representative of each city and town of the Railway District. This Council would not replace the present Board of Trustees, but would have the same relation to the Railway that the Ways and Means Committee of the General Court has to the average State department. Once a year, probably in December, the Railway would submit to the Metropolitan Finance Council their budget for the next calendar year, together with an estimate of income. The Council would meet with MTA officials to discuss this budget, and the power of the Council to increase, reduce or delete any items in this budget would be final. Should unforeseen contingencies later arise making changes in the original budget imperative, the Metropolitan Finance Council would meet to approve such alterations. Adoption of this suggestion would bring the officials of the cities and towns concerned a closer understanding of Railway finances, and, in addition, would give to local authorities an early estimate of anticipated deficits, which would provide to them adequate time in which to make necessary financial preparations to meet their share of that deficit.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Governor's Councilors, and the Senators, Representatives and officials of the cities and towns of the Boston Metropolitan District and the members of the Board of Trustees and officials.

SCHEDULE OF TRANSIT AUDITS

FISCAL YEAR 1950-1951

Agency	From	To	Report No.
Metropolitan Transit Authority	Jan. 1, 1950	Dec. 31, 1950	51-6
Boston Metropolitan District	Nov. 21, 1949	Dec. 31, 1950	51-60
Transit Mutual Insurance Company	Jan. 1, 1950	Dec. 31, 1950	51-62

The following comments, exceptions and recommendations were included in the reports issued in connection with this examination:

METROPOLITAN TRANSIT AUTHORITY

REPORT No. 51-6

1. **AUDIT:** This audit was conducted under the provisions of Chapter 675 of the Acts of 1949, which amended Section 12 of Chapter 544 of the Acts of 1947, and provides for an annual audit of the accounts of the Metropolitan Transit Authority by the Department of the State Auditor.

This report includes the calendar year 1950, and in addition separate reports covering the same period have been issued as a result of examinations made of the Boston Metropolitan District and the Transit Mutual Insurance Company, since these agencies in their respective operations are directly related to the MTA.

2. **GENERAL:** A letter from the Chairman of the Trustees of the Metropolitan Transit Authority to the State Auditor, dated February 5, 1951, included the following statement:

" . . . in your previous reports, you have attempted to deal with and advise concerning operating problems which under the provisions of Section 12 are responsibilities delegated to the Board of Trustees."

This department does not recognize the restrictions the Chairman has thus attempted to place on this report since the financial affairs of the Railway have reached a point where in ordinary criticisms of accounting procedures and methods fail to present a comprehensive picture of its financial condition.

The Department of the State Auditor is a public agency, headed by a Constitutional Officer elected by the people of the Commonwealth, and this examination has been authorized by the General Court. The Trustees of the Metropolitan Transit Authority are public officers, responsible to the taxpayers for the efficient and economical operation of the public agency, and while a thorough audit under accepted accounting standards has been made of those accounts which the Trustees have made available, we do not consider that the scope of our comments should be further limited, by the same Trustees, to those activities which are strictly of an accounting nature.

3. **DEFICITS:** For the year ending December 31, 1948, the first full year of Metropolitan Transit Authority operations, a deficit of \$8,900,854.77 was reported, and for the seven month period in 1949 preceding the adoption of Chapter 572 of the Acts of 1949 a deliberately inflated deficit of \$6,896,594.53 was reported by the Trustees. (See comment 4c) Following the advent of Chapter 572, for the last five months of 1949 from August 2, the deficit although further inflated by the Trustees (see comment 4a and 4b), showed a sharp decrease to \$1,354,292.29. For the year 1950 the Trustees have reported a substantially overstated deficit of \$539,820.43.

The present Trustees have made extravagant and continuing claims of savings and operating economies, while in reality no such saving or operating economies actually exist. The fact that deficits were reduced in 1949 and 1950 has little to do with any efforts of the present Trustees, since the reductions resulted entirely from the terms of Chapter 572 of the Acts of 1949 which provided that payment of the various debts of the Railway should be postponed and extended, and the same legislation also relieved the Railway from further payment of local real estate taxes.

On page 46 of our first report on the examination of the accounts of the Boston Elevated Railway issued on August 8, 1947, this Department originally advocated extending the period for paying the old debts of the Railway. This proposal was finally adopted in 1949 and a more equitable distribution of the debt has resulted. In that same report, however, this department opposed a proposal to relieve the MTA from payment of real estate taxes for the reason that no saving to the taxpayer would result. Chapter 572, however, when finally enacted did relieve the Railway of the cost of local taxes, and the relief thus afforded the Railway, at a direct cost to the taxpayer, has encouraged the Trustees to seek further legislation of the same misleading character.

The deficit of \$1,354,292.29 for the last five months of the year ending December 31, 1949 was paid the Authority by the Treasurer of the Commonwealth in November 22, 1950 over the protests of this department. The deficit for the year ended December 31, 1950 amounted to \$539,820.43 and is carried on the balance sheet for that date as due from the Commonwealth, and this deficit has been overstated by approximately \$450,000.00 by continuance of certain accounting practices which this department objected to in our previous report and which are covered in comments 4a and 4b of this report.

While it is impossible to view with optimism the future financial prospects of the

Railway, future deficits can be held down under accepted accounting practices. Certainly no justification exists for the continuance of certain policies of the Trustees which tend to add to the unrestricted cash of the Railway at the expense of the taxpayers. If it is the purpose of the Trustees to use their power to assess deficits to further enhance the cash position of the Railway, their attention is directed to the fact that such practices are contrary to the statutes which do and should govern their activities.

A spokesman for the MTA at an executive meeting of the Metropolitan Affairs Committee of the General Court on April 2, 1951 predicted a deficit of nearly \$8,000,000.00 for the year 1951. This prediction was a deliberate overstatement, made with the obvious purpose of influencing legislative considerations of certain MTA proposals and is fully discussed in comment 5a of this report. The deficit for 1951, even under the ruthless tactics and limited foresight of the present Trustees, should not exceed \$4,500,000.00.

4. CASH POSITION: The unrestricted cash of the Metropolitan Transit Authority on December 31, 1949 amounted to \$6,012,756.61, and by December 31, 1950 this cash had risen to \$7,113,407.80.

The cash was decreased somewhat during the early months of 1951 by an increase granted to employees, and further by an unwarranted expenditure of \$592,827.87 from cash for the purchase of thirty-five buses. This purchase exceeded the limit of \$10,000,000.00 placed on borrowings by the Railway for the purchase of new equipment by the General Court, and therefore had to be paid from cash. This expenditure will eventually be replaced in the cash from future borrowing. In addition, the cash position will be later increased by an amount in excess of \$800,000.00 due from the Federal Government as a result of a recent tax decision, and will be further enhanced in the amount of \$539,820.43 due the MTA from the taxpayers in the deficit assessment of 1950. The cash of the Authority, however, does include a sum of \$1,812,377.44 reserved on the balance sheet as a possible liability for Federal taxes for the years 1939 to 1947.

The unrestricted cash on hand is far in excess of the normal needs of the Railway, as is demonstrated by the fact that the Trustees have invested \$2,000,000.00 in Government obligations.

This enormous balance has been accumulated as a result of certain accounting practices of the Authority to which this Department has previously objected.

(a) Fully Depreciated Assets: In a pamphlet issued by the Metropolitan Transit Authority dated December 31, 1947, it was noted that an amount in excess of \$8,000,000.00 had been transferred from "property fully accruable in prior years" to "property upon which Depreciation is accruable."

The effect of this transfer has been to inflate the annual operating costs of the Railway, thereby increasing deficits and deficit assessments. Since the transfer was originally made, the taxpayers have been overcharged more than \$400,000.00 which has found its way into the cash of the Railway.

(b) Depreciation of Elevated Structures: The cost-of-service at present is being charged with approximately \$25,000.00 per month to provide funds for the replacement of present elevated structures, despite the fact that legislation, effective August 2, 1949, ordered the replacement of present elevated structures with subways and provided that money would be borrowed to provide funds for this replacement. This practice was objected to in our previous audit report, but the Trustees have continued to make this unwarranted charge upon the taxpayers and the practice has added approximately \$425,000.00 to the present unrestricted cash of the Railway.

(c) Unamortized Discount and Expense Less Premium: The Third Annual Report of the Trustees of the Metropolitan Transit Authority, covering a period from January 1, 1949 to August 2, 1949, contained under "Other Deductions" from income an amount of \$931,538.79 which, entirely without justification, inflated the deficit for that period by approximately \$900,000.00 and added that amount to the unrestricted cash of the Railway. This item was fully explained in our previous report, and to summarize, it represents an amount which should have been charged off over a period of seventeen years and which the Trustees, with complete disregard for the taxpayers, charged entirely to a seven month period.

5. ANNUAL REPORT: While the financial statements included in the annual reports of the Trustees properly describe the financial accounts of the Railway as they are maintained by the Trustees, most of the comments contained in the same reports have been

colored and the facts distorted to give the impression of economical operations and sound administrative policies.

Several examples are cited herewith:

(a) Transfer of Fixed Charges: On page 13 of the Fourth Annual Report of the Metropolitan Transit Authority, the Trustees make the following statement:

"The proper approach to the solution of this financial problem rests with the enactment of legislation which will relieve the Authority from the present burdens of paying fixed charges as part of the cost of service. Legislation should be enacted which would exclude these charges from the cost of service."

Legislation to accomplish the transfer of fixed charges to the taxpayers was filed with the current session of the General Court.

On April 2, 1951 a spokesman for the MTA appearing before an executive session of the Metropolitan Affairs Committee, speaking in behalf of this legislation, has been quoted as predicting that the MTA would incur a deficit of nearly \$8,000,000.00 in the calendar year 1951.

The obvious purpose of the speaker in making this extravagant prediction was to stampede the Legislature into acceptance of the MTA recommendations, for as of May 31, 1951, after five months' operation, the MTA deficit amounted to \$1,715,878.40, and it is inconceivable that the deficit for the year 1951 should exceed four and one-half million dollars.

To implement his prediction, the MTA representative presented to the Committee certain estimates that cannot be substantiated.

He stated revenue would drop \$3,335,000.00 for the year 1951, while as a matter of fact up to May 31, 1951 this loss amounted to \$684,418.16, and it is therefore apparent that revenue loss for the year should not exceed \$2,400,000.00 representing an overstatement of more than \$900,000.00.

The Legislative Committee was told that increased wage costs in 1951 will cost the MTA two and one-half million dollars, while actually for the first five months of 1951 these costs increased only \$670,317.19, clearly indicating that the increased cost will not exceed \$1,800,000.00 during 1951, an overstatement of \$700,000.00.

The MTA representative further stated that equipment bonds coming due would require an additional expenditure of \$417,000.00 during the year 1951, and that costs of the East Boston tunnel debt would rise approximately \$503,000.00. He, therefore, gave the Legislature the impression that the costs of these items to the MTA would rise approximately \$920,000.00 during the year 1951, whereas in actual fact the increased cost to the MTA will amount to approximately \$147,000.00, an overstatement by the spokesman of approximately \$773,000.00.

The MTA representative added to his statement an amount of \$674,622.00, which he stated was the difference between income and cost-of-service in 1950. While this figure is correct, the net deficit in that year amounted to \$539,820.43 after profit and loss items. These items are recurring items and will therefore also reduce the 1951 deficit. By failure to include these items in his estimate, the spokesman was able to increase his predicted deficit by \$135,000.00.

No considerations of this nature should enter any debate as to the necessity or the propriety of levying these fixed charges directly on the taxpayer. The proposed plan is not a solution but a subterfuge designed to allow the Authority to conceal or minimize deficits by levying the costs of future extravagances directly upon the taxpayers without reflecting their costs in MTA deficits.

While the present Trustees have objected to our criticism of their policies, when it suited their purposes they have not hesitated to go outside the entire MTA framework in seeking assistance to further legislation which proposes to relieve them of the proper debts of the Railway. We refer to the State Commissioner of Administration, an official of the Commonwealth whose statutory duties have not even the remotest connection with the MTA. The Commissioner, whose aid was obviously enlisted by the Trustees, has presented a bill which proposes to transfer to the taxpayers of the Metropolitan Transit Area all of the present fixed charges of the Railway, and he has included in his recommendation certain items which have no relation to fixed charges.

While acceptance of this bill would relieve the Authority of substantial costs, it would offer no relief whatsoever to the taxpayers who would continue to pay these fixed charges by direct assessment, and even more unfortunately, the taxpayer would continue to pay these fixed charges even though future operations of the MTA should result in operating profits.

Attention is directed to the fact that had the original proposal (Senate 285) been in effect during the year 1950, the taxpayers would have paid \$1,272,000.00 of the fixed charges of the Railway, and as a result the Authority would have boasted of a profit of more than \$732,000.00 which the Trustees would have undoubtedly retained to further enhance the cash of the Railway.

If the provisions of the second bill (House 2565) had been in effect during the year 1950 it would have cost the taxpayers in direct assessment \$4,956,826.35, and the Railway as a result would have had a profit of approximately \$4,420,000.00 for the year.

Relieving the Authority of the burdens of paying fixed charges is merely a less publicized method of making deficit assessments on the fourteen cities and towns served by the Authority, and to demonstrate far reaching effects of such legislation, attention is directed to the present cost of retiring the subway debt of the Railway which was palmed off on the taxpayers by Chapter 572 of the Acts of 1949. The original act apparently pegged this annual cost to the taxpayer at \$536,259.27. Actually in 1950 the assessment amounted to \$638,259.27, while in 1951 it is already certain that the cost will increase another \$13,333.33 and in 1952 a further increase of at least \$71,000.00 is already indicated. Therefore, an assessment which was originally pegged at \$536,259.27 in 1949 in three years will reach \$722,592.60.

Rather than accepting the latest efforts of the trustees to push further fixed charges on the taxpayers of the District by direct assessment, the Legislature should consider revising existing statutes to place present direct assessments where they properly belong -- on the operating costs of the MTA.

There is no material nor monetary difference to the cities and towns of the MTA District whether they are directly assessed or assume their proportion of the increased deficits if these charges are made to the cost-of-service; but should their recommendations be adopted, the Trustees would be free to spend many millions of dollars for which neither they nor the Railway would be financially responsible. The effects of such an unusual policy could be most unfortunate for the taxpayer, since the present Trustees have not hesitated to incur liabilities which are, in some cases, frivolous, and in other instances, non-essential.

To sum it up, this department can only repeat the comment made in last year's report to the effect that we have failed to find any substantial evidence of operating economies introduced by the present trustees; in fact, it appears that the Metropolitan Transit Authority has been extravagant, particularly in those directions which add to the fixed charges, the cost of which they now seek to transfer entirely to the taxpayer.

There is nothing to be gained by the taxpayer in any scheme which proposes to transfer any part of the debts or costs of the Railway to the category of direct assessments on the cities and towns of the District.

(b) Passenger-Carrying Vehicles: The Fourth Annual Report of the Trustees on page 10 states:

"As of December 31, 1950, the Authority had outstanding \$3,011,000.00 in bonds issued for the purpose of acquiring passenger-carrying equipment and commitments for vehicles on order sufficient to exhaust the authorized limit of \$10,000,000.00 which can be used under existing law.

"To furnish additional and replacement equipment necessary to serve adequately the passengers of the Authority, the Trustees have filed with the Legislature a petition for an Act authorizing an increase from \$10,000,000.00 to \$15,000,000.00 of the principal amount of bonds which the Authority may have outstanding on account of acquiring passenger-carrying vehicles."

While the statement in the first paragraph above was correct as of December 31, 1950, commitments for purchase of equipment had actually passed the limits of \$10,000,000.00 allowed by the Legislature, and the Trustees were, therefore, compelled to pay \$592,827.87 from the cash of the Railway for additional equipment.

The Trustees have from time to time claimed that the affairs of the Railway are being administered with the greatest economy, yet during the current session of the Legislature, they have attempted without valid reason, to increase the limit of their borrowings for equipment from \$10,000,000.00 to \$15,000,000.00. It is the opinion of this department that the permission already granted the Trustees provides a too easy source of funds for equipment, as is evidenced by the fact that in 1946 when the Railway carried 433 million passengers the Railway was able to carry this load with 2,365 pieces of rolling stock while in 1951 when the Trustees estimate that the passenger load will drop to 282 million, the Railway has on

hand 2,293 pieces of rolling stock, plus an additional 215 which were on order as of December 31, 1950, most of which have been delivered at the time of writing.

This department feels that no increase beyond the present limit of \$10,000,000.00 should be allowed to the Railway, and that in addition the present \$10,000,000.00 should be made the absolute limit of purchase by the Railway, so that in the future the Authority will not be permitted to raid the cash of the Railway to provide further unnecessary rolling stock.

(c) Operating Expenses: On page 7 of the Fourth Annual Report of the MTA Trustees for the year ending December 31, 1950, there is included the following schedule:

	1950	1949	Decrease
Wages	\$27,908,269 41	\$26,853,565 08	\$1,054,704 33*
Materials and Other Items	4,185,872 72	4,500,472 01	314,599 29
Injuries and Damages	1,489,118 18	1,430,568 16	58,550 02*
Depreciation	1,200,000 00	2,095,019 77	895,019 77
Fuel	2,119,081 68	2,275,775 39	156,693 71
MTA Retirement Fund	1,383,363 64	1,330,159 64	53,204 00*
Total	<u>\$38,285,705 63</u>	<u>\$38,485,560 05</u>	<u>\$ 199,854 42</u>

* Increase

With reference to the first item, the Trustees comment as follows:

"Of particular interest in the above table is the fact that notwithstanding wage rate increases resulting from arbitrations or from collective bargaining agreements amounting to \$1,621,000.00 for the year 1950, the actual payroll increases for the same year amounted to \$1,054,704.33. The resulting saving of more than a half million dollars was accomplished by a policy, wherever possible of not filling vacancies caused by deaths, or retirements from the service. The average number of employees on the weekly payroll during 1950 was 8,218 as compared to 8,452 in 1949, a reduction of 234, or 2.77 per cent."

While the figures included in the above schedule are correct, the statement of the Trustees is calculated to mislead. In actual fact, the total of \$1,621,000.00 referred to by the Trustees as increases due from arbitration and collective bargaining agreements refers to all employees of the MTA, many of whom are on construction work and their salaries therefore do not reflect in the operating costs of the Railway.

Attention is directed to the fact that the average of 8,452 employees in 1949, which the trustees cite, has been ballooned by inclusion of employees of the Boston Transit Commission who were taken over by the MTA in August 1949. The correct figure for the average number of employees in 1949 is 8,129, and the average number of employees of the MTA was actually increased in 1950.

It will also be noted that the same statement would indicate saving in the cost of materials and other items in 1950 amounting to \$314,599.29. While this statement is mathematically correct, several considerations enter into this saving which the Trustees have not explained. Actually the Trustees are able to show a reduction in 1950 because 1949 costs were above normal. For example, approximately \$131,000.00 was spent in 1949 in rebuilding wharves and buildings, rewinding generators and other work in connection with the power plants and the transmission system of the Railway. Also during 1949 there was an adjustment in the book value of the physical inventory of railway ties which added approximately \$12,000.00 to the operating expenses. The 1949 costs were further increased as a result of expenditure of \$57,000.00 in connection with federal tax litigation and expenses of arbitration, while also in 1949 substantial funds were spent for repairs to the Charles River viaduct. Expenses of 1950 were also reduced by \$43,083.58, representing income from sale of power to the Boston Edison Company which is referred to later in this report, and the 1950 costs were substantially improved by the value of rails, credited to operation at scrap value, which were removed due to installation of trackless trolleys.

(d) Comparison with New York System: The MTA Trustees have not hesitated on many occasions to issue misleading statistics designed to place their own operations in a more favorable light.

Attention is directed to the fact that on page 12 of the Fourth Annual Report of the Metropolitan Transit Authority, a comparison is made between the Metropolitan Transit Authority and the New York City transit system. The report states:

". . . The New York City transit system passed on to be absorbed out of the city's tax revenues a deficit of \$64,388,773.00 (against the MTA assessable deficit of \$539,820.00)"

The Trustees have chosen to ignore certain facts in connection with this comparison:

First -- the Trustees neglect to mention that the taxpayers of this district were directly assessed during the year 1950 a total of \$638,259.27 which should be added to their deficit to make it comparable to the figure they cite from the New York system. The comparable MTA deficit, therefore, amounted to \$1,178,079.00.

Second -- the comparison is loaded in favor of the MTA because the Trustees have not mentioned the fact that the average income of the New York City transit system amounted to 8.72 cents per passenger, while the Metropolitan Transit Authority collected 13.41 cents per passenger. If the New York City transit system was operated under a comparable fare structure, the New York system would have had a profit in excess of \$10,000,000.00 for the year.

6. FUNDED DEBT: The funded debt of the Metropolitan Transit Authority represents a tremendous financial burden to the Railway. Expansion of the debt beyond the ability of the original corporation to maintain it was largely responsible for the advent of Public Control in 1918. From 1918 to 1947 under Public Control, the debt was multiplied and became the principal factor that made public ownership of the Railway inescapable. Every deficit assessed under Public Control resulted from the costs of this debt, for in no year during that era did the Railway incur an operating deficit. As of December 31, 1950, the principal amount of this debt amounted to \$121,160,558.05, and legislation enacted since the creation of the MTA proposes to add substantially to this debt within the next few years. In the fact of a continuing decline in passenger riding, a reconsideration of these legislative authorizations is now essential for further expansion of this debt is unwise and impractical unless such additions to the debt promise to be self-liquidating, either by adding to the income of the Railway or reducing operating costs.

For purposes of discussion, the debt can be divided into three separate categories:

(a) Original Debt: On December 31, 1950 the original debt of the Railway amounted to \$69,918,371.89. Most of this debt was acquired from the Boston Elevated Railway Company at the time of the creation of the MTA, added to by borrowings to provide funds for the purchase of the Elevated Corporation. At that time, this debt was being retired at an unreasonably rapid rate and was largely responsible for the tremendous deficits assessed during the first two years of MTA operations.

Our report issued in 1947 recommended that the retirement rate be retarded, and as a result Chapter 572 of the Acts of 1949 corrected the situation and provided for an orderly equitable, but lengthy retirement of the debt. This statute provided for retirement at the rate of \$1,000,000.00 per year, payable in semi-annual installments of \$500,000.00 on December 1, and June 1, of each year. As a result, since August 29, 1949 the debt has been reduced one and one-half million dollars; this, however, represents only a part of the costs, for in the same period the MTA has paid interest in the amount of \$2,232,257.11 on this debt.

Under no circumstances should the payment of interest or principal on this debt be permitted to become a direct assessment on the taxpayers of the district, since these costs are properly chargeable to MTA operations.

(b) Subway Debt: This obligation represents the cost of purchasing subways used by the MTA from the City of Boston under Chapter 572 of the Acts of 1949. The debt at time of acquisition of the subways amounted to \$40,219,445.43 and has since been reduced to \$39,683,186.16.

Under the provisions of Chapter 572, this debt is to be retired in seventy-five years by a direct annual assessment on the taxpayers of the District in the amount of \$536,259.27. This retirement cost is not reflected in MTA financial statements, however, interest on the debt is paid by the MTA, and this payment is included in Railway obligations. Since August 29, 1949 the Authority has paid \$2,288,056.30 in interest charges.

In addition to the above, on November 25, 1949 the Authority borrowed \$7,650,000.00 which has been largely used to meet the costs of extension of rapid transit in East Boston, however, \$338,722.00 of this amount has been used for subway alterations in connection with escalators installed at the Atlantic Avenue and the Arlington Stations of the Subway system. The costs of retirement of issue, amounting to \$102,000.00 per year, are collected by direct assessment on the cities and towns of the District, payable on November 21

of each year, and therefore are not reflected in the financial statements of the MTA. Interest on the issue, payable at 2%, is met by the Authority and reflects in their financial statements.

On April 15, 1950 bonds in the total of one million dollars were issued by the MTA to provide funds for an addition to the Tremont Street Subway. This bond will be retired at the rate of \$13,333.33 per year, and this amount will be raised by direct assessment on the taxpayers of the District, whereas the interest will be paid by the MTA.

As a result of direct assessments to retire this debt, the deficit assessed for 1950 has been understated by \$638,259.27, and this amount will be paid by the taxpayers.

(c) Equipment Bonds: Under the provisions of Section 22 of Chapter 544 of the Acts of 1947, the MTA has been permitted to borrow money for the purchase of passenger-carrying equipment up to a limit of \$10,000,000.00. From April 15, 1948 to date of audit, a total of \$3,578,000.00 had been borrowed for this purpose, and as of December 31, 1950 the amount thus outstanding had been reduced by retirements to \$3,011,000.00. As of that same date, however, the Authority was committed to a purchase of \$6,564,000.00 in passenger-carrying equipment, thus bringing the total outstanding plus commitments to \$9,575,000.00.

Early in 1951 the Metropolitan Transit Authority purchased thirty-five buses at a cost of \$608,293.00, and since this amount was in excess of the limit placed by the Legislature, the Railway paid for these buses from cash on hand.

7. NEW CONSTRUCTION: While the funded debt of the Railway represents a substantial part of the present-day costs of the Metropolitan Transit Authority, further borrowings already authorized by the Legislature for subway construction, alterations, parking facilities, and purchases of passenger-carrying vehicles will add considerably to that burden.

It is worthy of comment that, despite the fact that these expenditures are principally for non-revenue producing alterations, the Trustees have advocated, endorsed, continued and in many instances originated these expenditures in the face of a substantial decline in passenger riding in the past few years, and the same Trustees have publicly predicted a continuance in this decline as is evidenced by the following excerpt taken from their report covering the year 1950.

The Trustees' state:

"A comparison of the operations of the Authority for the year 1948 and 1950 shows that passenger riding has decreased 19 per cent in those two years. Computations show that 9 per cent of this is accounted for by the impact of two fare increases, one in August 1949 and the other in January 1950. The remaining 10 per cent is accounted for by the effect of the automobile and other economic conditions affecting the transit industry.

"In those two years passenger riding decreased from 381 million passengers in 1948 to 307 million in 1950. (In the peak year of 1946 there were 433,094,952 revenue passengers.) Moreover, this is a continuing trend. A comparison of the first quarter of 1951 with the same period of 1950 shows that passenger riding is decreasing at the approximate rate of 8 per cent. If this sharp decline in riding is maintained throughout 1951 it will result in a total annual loss of 25 million passengers. At present fare rates this would reduce the annual revenue by about \$3,300,000.00.

The following is a comparison of the figures mentioned, with the addition of the 1946, 1947 and 1951 figures:

<u>Year</u>	<u>Passengers Riding</u>	<u>Per Cent Decrease From 1946</u>
1946	433 million	
1947	388 "	
1948	381 "	10%
1949	No figures available	12%
1950	307 million	
1951	282 " (per Trustees' estimate)	29%
		35%

The Trustees have claimed great economies in operating costs, but they have not at any time advocated any restraint in expenditures from borrowed monies. Their only interest in that direction has been an attempt to place the costs of these extravagances directly on the taxpayers.

The Trustees should advocate only those expenditures which promise to be self-liquidating, and certainly many of the millions now being expended will not have this effect.

(a) Extension of Rapid Transit - East Boston: The Trustees of the Metropolitan Transit Authority, both past and present, have consistently advocated the extension of the MTA into areas now serviced by other transportation services and to further these efforts, the previous Trustees did not hesitate to spend public funds in the conduct of political campaigns in attempting to sell their services to certain areas.

It is conceivable that under economic administration, accompanied by rapid transit service, the MTA would be welcomed by the cities and towns now outside the Metropolitan Transit Area; but before attempting such expansion, the Trustees could better devote their time and attention towards improving present service and extending rapid transit facilities to the cities and towns already in the Metropolitan Transit Area. The opportunity to proceed in this sensible direction presented itself to the Trustees when certain changes in the MTA setup in East Boston became urgent.

Under present plans, rapid transit in East Boston now under construction will be extended to Orient Heights, and to May 31, 1951 \$14,245,599.96 has been expended on this project. While this extension is an improvement which will result in some operating economies, it demonstrates limited thinking on the part of the Trustees. Attention is directed to the fact that the MTA owns the rights of way of the former Boston, Revere Beach and Lynn Railway from Orient Heights to Point of Pines, Revere. Normal and logical thinking should have indicated to the Trustees that extension of rapid transit facilities throughout the entire length of this right of way could be accomplished at a minimum cost. Such an extension would provide considerable improvement in service to the City of Revere and at the same time add substantial revenue and decrease operating costs by eliminating most of the feeder service which will still be needed under the present limited extension.

(b) Extension of Washington Street Tunnel: Chapter 649 of the Acts of 1949 authorizes the MTA to construct an addition to the Washington Street tunnel from Haymarket Square to Sullivan Square at a cost not to exceed \$24,000,000.00, and a further addition from Boylston Street to Forest Hills at a cost not to exceed \$31,000,000.00. To May 31, 1951, \$624,357.74 has been expended on certain engineering work in connection with these proposals and already engineering estimates of the cost of the Haymarket Square to Sullivan Square addition have proved to be far in excess of the amount authorized. While a complete estimate of the cost of the Boylston Street to Forest Hills Subway is not available, it now appears that the work planned cannot be completed for the amount authorized.

Some idea of the ultimate cost of these extensions, if erected under the supervision of the present Trustees, can be learned from the fact that the Trustees have already found it necessary and advisable to spend \$50,000.00 for bare appraisals of land in connection with this project. Attention is directed to the fact that if these projects are carried out, even at the cost allowed by the Legislature, they will result in an additional direct assessment on the cities and towns of the District of approximately \$733,000.00 per year, and this amount does not include the annual interest cost which will be borne by the Railway.

(c) Addition to Tremont Street Subway: In connection with this installation, the First Annual Report of the Trustees of the Metropolitan Transit Authority for the year ended December 31, 1947, stated on page 28:

"The capacity of the surface car subway system is overtaxed in the rush hours. The operation of individual cars in trains has helped to speed up service, but not sufficiently. There is serious congestion and slowing down in this subway system due to the bottleneck which occurs between Park Street and Scollay Square Stations."

This comment was made by the then MTA Trustees after the Railway had carried in excess of 433 million passengers in 1946 and 388,573,222 passengers in 1947.

Attention is directed to the fact that in the year 1950 the passenger load dropped to 307,732,315 riders, and it is estimated by the Railway itself that in 1951 the road will serve approximately 282 million passengers.

Despite this decrease of 35% in the passenger load from 1946 to date, the Trustees are proceeding with an expenditure of \$11,500,000.00 on this project. While the Park Street facilities were adequate though strained in handling 433 million passengers in 1946, the present estimated passenger load of 282 million should indicate to the Trustees that a re-study under existing passenger loads could result in a substantial reduction in expenditures in connection with this project.

(d) Escalators at Arlington Station: Two escalators are in the process of installation on the Arlington Street side of the Arlington Station, and it appears that these escalators will cost considerably in excess of \$200,000.00.

Attention is directed to the fact that these escalators will service only one end of Arlington Station; that they will carry passengers in only one direction (upward); and that they will carry them only one-half way to the surface.

The greatest use of these escalators will occur in the morning, and no substantial congestion has ever been noted at the Arlington Station in the morning; and since these escalators will run only up, they will be of no value whatsoever in the late afternoon hours when some congestion does occur at the station.

It would immediately appear that the installation of these escalators is an unwarranted extravagance, and if the Metropolitan Transit Authority can produce evidence that they are necessary, it is an undeniable fact that they could have been installed at substantially lower cost if they had been placed where present stairways are located, since a large part of the cost of installation came from the relocating of water mains and other public utilities which happened to run through the locations selected by the Authority.

This Department does not deny that installation of escalators is a partial improvement, but no valid reason has been offered as to why this particular station should be selected for escalator installation; however, it is worthy of comment that this station is most convenient to the Park Square Building in which the offices of the MTA are located.

Attention is directed to the fact that installation of these escalators will not increase the revenue of the Metropolitan Transit Authority, but they will add substantially to the costs of the Railway and to the present direct assessment on the taxpayers.

(e) Off-Street Parking Facilities: On November 25, 1949 under authority granted by Chapter 544 of the Acts of 1949 the MTA borrowed \$150,000.00 for the purpose of providing off-street parking facilities. Through May 31, 1951 it was noted that the MTA had expended \$29,480.32 for these purposes.

Attention is directed to the fact that from the MTA point of view, the cost of providing these facilities in some areas is prohibitive, and it does not appear likely that the income accruing will be sufficient to offset MTA costs.

The following installations reflect excessive costs:

(1) Butler and Branchfield Streets, Dorchester: To May 31, 1951 the MTA has spent \$4,347.50 on this particular location, and this amount does not include the cost of land which is in litigation. This area, when completed, will provide parking for only sixty cars.

(2) Asticou Road, West Roxbury: To May 31, 1951 the MTA has expended \$7,412.72 on this parking area, and this amount does not include the cost of land which is in litigation. This area provides parking for one hundred and thirty-one cars.

(3) Butler and Huntoon Streets, Dorchester: To May 31, 1951 the MTA expended \$13,140.42 on this parking area, which provides parking for one hundred and seventy-seven cars.

These parking facilities are designed to attract additional revenue to the Railway by encouraging drivers of private automobiles to leave their cars at MTA terminals and use the Railway's facilities to enter downtown Boston, yet many of these parking facilities are now crowded with cars of people working in the vicinity of the parking area, and therefore the Railway obtains no revenue from the parking facilities and the area is of no assistance in relieving the traffic situation in downtown Boston.

It would appear that further expansion of these parking facilities at costs similar to those cited herein will not provide sufficient revenue to the MTA to amortize the cost of the facilities provided, and yet, at the same time, these areas are invaluable in clearing the highways of parked cars and of traffic. It is recommended that funds for further expansion of existing parking areas and creation of new facilities be provided from another public source.

8. FARE INCREASE: As a result of a fare increase inaugurated on January 28, 1950, the income of the Railway from that source increased approximately \$5,000,000.00 during that year from \$36,318,428.17 in 1949 to \$41,316,003.47 in 1950.

This increase was set up as follows:

Ten cents for a single local ride, without transfer privilege on any one of the Authority's 121 surface lines for the entire length of that line, or any portion of it.

Fifteen cents for any other ride, with or without transfer:

- (a) on two or more surface lines.
- (b) on combined rapid transit and surface lines.

- (c) on rapid transit lines only.
- (d) on lines operated during the early morning hours.

This was the second fare increase ordered by the present MTA Trustees. A previous increase which became effective in August 1949 provided for return of the five cent fare on the many feeder lines, with an additional charge of ten cents for the use of rapid transit facilities. While this increase did produce some added revenue, the Trustees apparently did not consider it sufficient and ordered a second increase in January 1950.

The last fare increase has produced added revenue and at the same time has resulted in a substantial decrease in the number of passengers carried by the Railway. It is worthy of comment that no comparative decrease in operating costs has been noted to date.

9. CHANGE IN METHOD OF FARE COLLECTION: The fare increase of January 28, 1950 rendered inoperative most of the automatic fare collection equipment at rapid transit stations, and as a result the cost of collection was increased by the hiring of additional personnel to stand over the type of collection boxes used.

The Fourth Annual Report of the Board of Public Trustees states that the token method of fare collection is to be put in effect in 1951, and the Trustees estimate a savings of \$200,000.00 a year as a result of this change.

The token method of fare collection was voted by the Trustees at a meeting held on December 13, 1950, and the following is an excerpt taken from the minutes of that meeting:

"Voted - That for the reasons stated in memorandum submitted by the General Manager to the Board, which memorandum was ORDERED placed in the files of this meeting, the General Manager be and he hereby is authorized to make effective the recommendations contained in said memorandum for the use of tokens, for providing modern fare collecting equipment at rapid transit stations and in surface line vehicles, at an estimated cost of \$693,202.00, and for the purchase of tokens and machines for counting and wrapping tokens, at an estimated cost of \$100,800.00."

Attention is directed to the fact that the use of tokens will also facilitate fare collections in the event that the Trustees are contemplating increases in fares which might amount to less than five cents.

10. RESERVE FOR INJURY AND DAMAGE CLAIMS: On December 31, 1950, the balance in this account totaled \$1,778,185.01, and it is worthy of comment that the balance in this reserve fund has more than doubled itself over the past five years as is demonstrated by the following schedule:

	Balance January 1, 1946	Additions to Reserve	Charges to Reserve	Balance December 31, 1950
1946	\$885,800 68	\$1,355,000 00	\$1,171,472 04	
1947		1,316,002 74	1,101,226 90	
1948		1,300,000 00	1,159,866 06	
1949		1,350,000 00	1,167,706 20	
1950		1,400,000 00	1,228,347 21	\$1,778,185 01
	<u>\$885,800 68</u>	<u>\$6,721,002 74</u>	<u>\$5,828,618 41</u>	<u>\$1,778,185 01</u>

Study of the foregoing readily indicates that in each one of the five years the additions to the reserve have exceeded that year's total charges for injury and damage claims, and as a direct consequence the annual deficits have increased in the same amount.

At the present time the reserve is credited each month with one-twelfth of the annual amount which has been previously determined as necessary. The amount of the reserve, together with the salaries and other expenses of the Claims Department is directly charged to the cost-of-service. The foregoing schedule is, therefore, conclusive proof that the cost-of-service has been overcharged in each of the past five years by the amounts by which the addition to the reserve exceeded the actual amounts paid for injury and damage claims.

It is suggested that the balance in this reserve as of December 31, 1950, be added to revenue thereby reducing the deficit and that future payments for injury and damage claims

should be charged directly to the cost of operations. As this Authority is a public agency, the practical need for a reserve account of this nature is not as important as the necessity of presenting true costs to the taxpayer.

At the present time, the liabilities in this respect have been set up on the following arbitrary basis:

Superior Court Suits Outstanding	\$ 700 00 each
Municipal Court Suits, Entered between January 1, 1949 and January 1, 1951	200 00 each
Municipal Court Suits, Entered between January 1, 1947 and December 31, 1949	75 00 each
Claims Outstanding - Suit not entered	250,000 00 total

An analysis was made of the expenses of operating the Claims Department. In this connection the following interesting comparison was noted:

	<u>Operating Expenses Claims Department</u>	<u>Claims Actually Paid</u>
1946	\$ 389,010 12	\$1,171,472 04
1947	398,465 99	1,101,226 90
1948	391,995 46	1,159,866 06
1949	392,610 11	1,167,706 20
1950	409,548 95	1,228,347 21
	<u>\$1,981,630 63</u>	<u>\$5,828,618 41</u>

Attention is called to the fact that in the previous five years the cost of operating the Claims Department was more than 34% of the total claims paid.

In analyzing the foregoing expenditures made by the Claims Department, it was also noted that substantial sums of money have been expended for outside legal counsel. For the past five years the following was expended in this respect.

1946	\$ 36,155 35
1947	42,902 36
1948	35,069 25
1949	26,948 12
1950	39,575 38
	<u>\$180,650 46</u>

In view of the large amounts of money that are being expended for the operation of the Claims Department, it is suggested that a serious study be made of the advisability of discontinuing this Department and handling its functions through regular casualty insurance companies.

11. RESERVE FOR DEPRECIATION: Since August 2, 1949, when the Metropolitan Transit Authority was created, no further allowance for the depreciation of passenger-carrying rolling stock has been made on the accounting records of the authority by specific direction of Section 4 of Chapter 572 of the Acts of 1949.

The following additions were made to this reserve during the 1950 calendar year with corresponding charges to the cost-of-service:

Principal Payments re Reductions of Funded Debt	\$1,272,000 00
Monthly Accrual on Depreciable Property (other than rolling stock)	1,200,000 00
	<u>\$2,472,000 00</u>

During the same year, the following items were charged to this reserve:

Actual Retirement of so-called non-depreciable property which includes items such as tracks removed, abandoned, etc.	\$ 573,071 66
Buses Written Off	200,024 82
Retirements of Actual Depreciable Properties	1,037,513 07
	<u>\$1,810,609 55</u>

As a result of the foregoing, an increment to the reserve of \$661,390.45 for the year was developed, and on December 31, 1950 the balance in this account totaled \$47,948,432.87.

12. **FEDERAL INCOME TAXES:** The balance sheet December 31, 1950 reflected two items covering cases pending with the Federal Government involving income taxes. On the asset side an amount of \$591,972.56 is carried as "Claim for refund of prior years federal income tax".

This amount covers taxes paid by the Boston Elevated Railway Company for the year 1944. As a result of the carryback of losses incurred in 1945 and 1946, claims were filed for a refund of the full amount shown. In May 1951 a decision in full settlement plus interest to date of payment was awarded the MTA, which, as of May 31, 1951, would amount to approximately \$800,000.00. Interest will continue to accrue at an approximate rate of \$97.00 daily until settlement is made. Settlement has not been made by the Government since a reverse case is still open, and should a verdict in the latter case be rendered against the Authority, this original award would be applied thereto. No change has yet been made on the books of the Authority to reflect this settlement or the interest mentioned.

On the liability side of the balance sheet an amount of \$1,812,377.44 is carried as "Provision for additional prior years federal income taxes". This liability for additional prior years' taxes covers proposed adjustments by the Internal Revenue Bureau of taxes for the years 1939 to 1943, and a transferee tax for the period January 1, 1947 to August 29, 1947. This proposed additional assessment has been contested, and it is anticipated a decision favorable to MTA will be rendered in the near future. To provide the reserve, the cost-of-service for the years 1943 and 1944 was charged with a total of \$1,812,377.44. This reserve, therefore was created from funds provided by the MTA District and in the event of a favorable decision can only be properly applied against existing deficits or returned to the cities and towns of the District.

13. **LEASED ROADS:** Under the terms of an agreement entered into on February 16, 1903, the MTA operates certain lines leased from the Eastern Massachusetts Railway, and during the calendar year 1950 the Authority paid to that Company \$41,612.12 under the terms of this lease.

This cost was arrived at under the following formula:

6 1/8% of replacement value	\$18,056 96
4% of additions value	14,833 60
Share of corporate franchise tax paid by Eastern Mass. St. R. R.	8,721 06
	<u>\$41,611 62</u>

It is obvious that the MTA has been held to the terms of a most unfair and exorbitant lease. Of the property leased, not one single piece of track or equipment that was originally leased in 1903 is still in existence, and replacements that have been made, have been paid for by the MTA with the result that the MTA has been paying \$40,000.00 per year to the Eastern Massachusetts Railway Company for permission to provide service to this area.

The MTA, recognizing the fact that the terms of this lease were unreasonable, has tried on various occasions to negotiate with the Eastern Massachusetts Railway Company, and in 1949 offered as high as \$600,000.00 as a basis of settlement and this offer was apparently rejected.

In commenting on this situation, the previous audit report stated:

"Attention is directed to the fact that the Eastern Massachusetts Street Railway Company is permitted to use free of charge the Metropolitan Transit Authority facilities at Ashmont, Everett, Forest Hills, Sullivan Square, Arborway and Mat-tapan, while at Fields Corner the Eastern Massachusetts Street Railway Company pays to the Metropolitan Transit Authority 7 1/2¢ for each bus using that tunnel under a minimum rental arrangement amounting to \$2,298.12 per year. The argument might well be raised that the use of these facilities brings revenue to the Metropolitan Transit Authority, but attention is also directed to the fact that it is certainly to the advantage of the Eastern Massachusetts Street Railway Company that they be permitted to use these facilities without cost."

These facts were called to the attention of the Trustees of the MTA in the hope and ex-

pectation that they might use these free conveniences given to the Eastern Massachusetts Railway Company by the MTA as a method of forcing a more reasonable attitude upon that Company.

Attention is directed to the fact that House Bill #866 filed previous to December 6, 1950 provided that the MTA would be authorized to take by eminent domain the tracks and wires of the Eastern Massachusetts Railway Company in the West Roxbury and Roslindale districts of the City of Boston. Despite the fact that this legislation was pending, minutes of a meeting of the MTA Trustees dated January 10, 1951 indicate that the Trustees at that time reached an agreement for the purchase of a section of these leased lines in Roxbury for \$229,205.50. As has been indicated before, this lease has been in effect since 1903, and it would appear that the Trustees have acted with undue haste in settling with the Eastern Massachusetts Railway for such an exorbitant price when legislation was pending which might have relieved them of a large part of the cost.

Attention is directed to the fact that the portion of the leased lines thus purchased has been previously valued at only \$199,819.24. Therefore, in addition to paying an exorbitant rental for a period of forty-eight years, the Trustees have now granted to the Eastern Massachusetts Railway Company a generous bonus of approximately \$30,000.00 in this transaction.

This payment of \$229,205.50 will reduce the annual rental figure paid to the Eastern Massachusetts Railway Company by \$9,635.11, so that in a period of approximately twenty-two years the Metropolitan Transit Authority will have recovered its cost in this transaction.

14. **GASOLINE TAXES:** During the year 1950, the Metropolitan Transit Authority paid state gasoline taxes in the amount of \$155,656.41.

With regard to this item, our previous audit report stated:

"It was noted that the Metropolitan Transit Authority pays to the Commonwealth approximately \$170,000.00 per year in gasoline taxes. When Chapter 572 of the Acts of 1949 was originally discussed, the Legislature refused to accept the section of the bill which provided exemption from gasoline taxes to the Metropolitan Transit Authority.

"It is recommended that this amendment be again offered to the Legislature for reconsideration. The Metropolitan Transit Authority is a public agency, operated by a political subdivision of the State, and further consideration should be given the fact that of all the miles operated by the Metropolitan Transit Authority buses, only a fraction of such mileage is performed on State highways for which the major part of the revenue from gasoline taxes is expended."

This department feels quite strongly that the Metropolitan Transit Authority should be relieved from further payment of this tax, and again recommends to the Legislature that the MTA be exempted from payment of the State gasoline tax.

15. **RENTAL OF OFFICE SPACE:** During the calendar year 1950, the Metropolitan Transit Authority paid a total of \$90,844.02 for the space now occupied by their general offices which included rent of \$80,362.00. Under the terms of their lease, this rent will be increased 7% during the year 1951, and this increase will amount to approximately \$5,600.00.

Our previous report included the following comment:

"In view of the fact that the Authority is now exempt from real estate taxes (Statute 1949, Chapter 572, Section 6), substantial savings could result from erection of a building to house the main offices of the Metropolitan Transit Authority."

It is recommended that the Metropolitan Transit Authority give some consideration to this proposal.

16. **MAGAZINE - "CO-OPERATION":** The MTA publishes at irregular intervals a magazine called "Co-operation". During the year 1950, there were five issues of this magazine, and during the year 1949 four issues were published, and each of these issues consisted of 11,000 copies, except one issue of 10,500 copies.

Officials of the Authority have indicated that an attempt is to be made to publish the magazine every two months or six issues per year. The magazine is distributed to each employee, and copies are sent to various transit organizations throughout the country and to other corporations and individuals upon request.

During the year 1950, the average cost per issue of this magazine amounted to

\$3,592.63, representing a total cost of \$17,963.16 for the year. Under present costs, six issues per year will require an expenditure in excess of \$21,500.00 per year, and this amount includes only the actual publishing costs and does not include the salaries of employees who devote considerable time to the accumulation of data, the preparation of statistics, and other work incidental to publication.

It is recommended that publication of this magazine be suspended until such a time as it no longer contributes to deficits now assessed upon the taxpayers.

If the Metropolitan Transit Authority feels that it is necessary to furnish other transit organizations and corporations with statistical data relating to Railway operations it can be accomplished at substantial savings by sending copies of their annual report to interested parties.

17. **AUTOMOBILES:** It was noted that as of December 31, 1950 the Trustees had assigned fifty-one passenger automobiles to various executives and employees of the Railway. These cars were valued at \$72,194.44.

While it is probably necessary that the MTA should operate some passenger cars, it is felt that the number now used is excessive and that in many cases they are being used for transportation which could be supplied by existing MTA facilities.

If the Authority considers its facilities to be adequate for the general public's use for transportation around Metropolitan Boston, then the same service should be adequate for their own personnel, and it is recommended that a study be made by the Authority to determine how many of these cars can be dispensed with.

18. **COAL:** With reference to this subject, the previous audit report stated:

"Attention is directed to the fact that the South Boston Power Station was converted from coal to oil on January 25, 1949 and the Lincoln Power Station on October 6, 1949. The savings reported by the Trustees are clouded by the fact that in converting from coal to oil, the Railway, as a result of bad planning by the same Trustees, continued to purchase and accumulate coal until on December 31, 1949 the Metropolitan Transit Authority had on hand 57,359 tons of coal valued at \$704,475.97. It is worthy of comment that, despite this tremendous inventory of coal, during the month of November 1949, (to cite an example) the road consumed only 1,465 tons of coal. On the basis of this consumption, the road had on hand on December 31, 1949 more than a three year supply of coal."

Of the amount of coal thus reported on hand on December 31, 1949, 44,856 net tons were sold during the coal shortage at a price of \$514,367.06. While the coal strike thus enabled the MTA to work off this excessive inventory, the Trustees have proceeded to build up another surplus through the purchase of 35,173 net tons of coal during the year 1950. On December 31, 1950 there were on hand 39,840 net tons of coal valued at \$354,816.90. This inventory represents approximately a three year supply for the Metropolitan Transit Authority based on the present consumption by the Railway's power plants.

19. **EXECUTIVE PAY ROLL:** As of December 31, 1950 the executive or monthly pay roll of the Railway amounted to \$910,220.96, representing an increase of \$92,338.58 over the year 1949.

During the year 1950, six executives were retired or resigned, while fourteen executives were added to the pay roll; therefore, during the year 1950 the Trustees have created an additional eight executive positions, and these additions were made despite dwindling passenger revenue.

20. **BUDGETING AND PERSONNEL CONTROLS:** Our previous audit report with reference to this subject stated:

"Section 1 of Chapter 544 of the Acts of 1947 states that the territory within and the inhabitants of certain cities and towns are made a body politic and corporate and a political subdivision of the Commonwealth under the name of the Metropolitan Transit Authority. From this it would appear that the funds of the Authority are in the category of public funds.

"It is a generally accepted principle that the handling of public funds should be subject to budgetary and personnel controls exercised by some agency other than the one responsible for the expenditure of the funds. It is, therefore, rec-

ommended that some arrangement be made to provide external budgetary and personnel controls. The ideal method would be to have such controls exercised by representatives of the fourteen cities and towns who own the Authority. In this connection, it is recommended that consideration be given to the advisability of reviving the Metropolitan Transit Council, which consisted of the Mayors and Chairmen of the Boards of Selectmen of all the cities and towns in the District, which Council was abolished by Section 8 of Chapter 572 of the Acts of 1949, and placing with this Council final authority over the operations of the Railway."

Adoption of this recommendation is again strongly urged. It is unthinkable that the Metropolitan Transit Authority should be allowed to continue to assess deficits upon the cities and towns without representation in the management of the Railway.

21. **POWER PLANTS:** In 1911 the Boston Elevated Railway Company, predecessor to the present Metropolitan Transit Authority, adopted a modern system of generating alternating current and converting to direct current at substations. At the present time, the Authority owns and operates two generating stations, one at South Boston and the other at Lincoln Wharf, and twenty substations. As of December 31, 1950 the Railway's investment in land, power plant buildings, equipment and transmission systems was valued at \$17,402,806.26.

During the winter season 1950-51, the peak load power requirement of the Metropolitan Transit Authority system amounted to 82,000kw, and the Authority had available, without taking into consideration the low pressure boilers at the South Boston Power Station. 95,000kw of firm capacity, and in addition the MTA purchased energy from the Boston Edison Company for the operation of the Chelsea Division.

Under the agreement with the Boston Edison Company dated December 30, 1948 which became effective during October 1950, the MTA at times purchases power from the Edison Company, and similarly the Edison Company purchases from the Authority. In the eight month period from October 1950 through May 1951 the MTA paid to the Edison Company \$93,850.88 for energy purchased under this agreement, and in return the Authority received approximately \$140,996.20 for energy sold to the Boston Edison Company.

Several years ago an attempt was made to purchase the power plants of the Railway for \$7,400,000.00. The price thus offered was approximately one-half of the real value of the plants, and at that time this Department commented as follows:

"Section 8 of Chapter 544 of the Acts of 1947 gives to the Trustees of the new Metropolitan Transit Authority exclusive authority to sell and convey any of the assets or properties of the Railway. It is recommended that the next session of the legislature amend that section to forbid the sale of the power plants without prior approval of the Legislature.

"Any attempt to dispose of or to sell the power plants of the Railway must be vigorously opposed."

This recommendation is herewith reiterated.

22. **CAMBRIDGE SUBWAY:** The Cambridge Subway, originally constructed by the Boston Elevated Railway Company, was sold to the Commonwealth of Massachusetts in May 1920 in order to furnish the Railway with cash needed for rehabilitation of its physical properties at that time.

To provide funds for the purchase and also for the cost of subsequent improvements made, the Commonwealth has borrowed \$8,229,500.00. The following schedule summarizes the complete transactions.

Detail on Computation of Paid and Potential Rental Charges
Cambridge Subway

Bond Issues of the Commonwealth:		
Cambridge Subway, 1920-1974	\$7,868,000 00	
Cambridge Subway Improvements, 1924 - 1974	96,000 00	
Cambridge Subway Station, 1932 - 1981	265,500 00	
Total Bond Issues		\$ 8,229,500 00

Interest on Bond Issues:

Cambridge Subway	\$13,215,495 00	
Cambridge Subway Improvements	94,240 00	
Cambridge Subway Station	234,952 75	
Total Interest		<u>\$13,544,687 75</u>
Total Bond Issues and Interest		<u>\$21,774,187 75</u>

Deduct:

Paid and Potential Rent Charges:

Railway Payments through 1949	\$12,169,422 75	
Lessees Rents for Cambridge Subway Property through 1949	69,512 50	\$12,238,935 25
Balance due Commonwealth to liquidate Principal and Interest		<u>9,535,252 50*</u>
		<u>\$21,774,187 75</u>

* Balance due from Metropolitan Transit Authority subject to reduction for amounts received by Commonwealth for rents, tolls, etc., on Cambridge Subway property.

Under the provisions of Chapter 572 of the Acts of 1949, when the indebtedness of the MTA to the Commonwealth is finally liquidated, title to the Cambridge Subway will pass to the MTA.

23. CONCESSIONS: Our previous report brought attention to the fact that the Trustees of the MTA have refused to allow this Department to conduct an audit of the various concessionaires of the Railway, even though such audits are considered a normal part of our audit programs of other state agencies. This department considered it particularly advisable in this audit to determine that all income due the Railway was being collected, and since income from many Railway concessions is based on the volume of business, such income could only be verified by actual audit.

At the start of this audit, the Trustees again refused to permit an audit of their concessionaires. Attention is directed to the fact that during the year 1950 the MTA derived income of \$1,042,849.19 from concessionaires with other than flat rental agreements, and which therefore would require audit. Of this total, MTA accountants verified only \$101,590.42 and income amounting to \$941,258.77 was not audited.

24. RETIREMENT BOARD: This Board was created originally as a result of an agreement between the MTA and the Amalgamated Union and since has been extended to other employees of the Authority. Briefly, the plan provides for the members contributing 5% of their wages or salaries, which is matched by a contribution of 5% from the Authority.

The accounts of the Retirement Board were not examined during the course of this audit, however, it was noted that for the past few years the contributions of the MTA to the board have been as follows:

Retirement Fund	\$1,021,826 84	\$1,330,159 64	\$1,383,363 64
Paid Pensions to Former Employees	185,082 49	164,612 10	151,144 40
Health and Accident Insurance	70,640 80	72,348 65	71,171 99
	<u>\$1,277,550 13</u>	<u>\$1,567,120 39</u>	<u>\$1,605,680 03</u>

In addition to the above expenditures, as of January 1, 1951 changes made in the Federal Social Security Laws make it permissible for the employees of the MTA to re-enter the Social Security system, and during 1951 expenditures for Social Security by the MTA will amount to approximately \$440,000.00.

25. BOSTON ELEVATED RAILWAY COMPANY - CAPITAL GAINS TAX: According to a report of the Revenue Agent, dated September 16, 1949, the over-all Capital Gains

tax levied against the Boston Elevated Railway Company was \$7,658,985.54.

A payment of \$6,177,796.50 was made against the amount levied, leaving an unpaid balance of \$1,481,189.04. The amount paid to date has been taken from the \$85.00 per share settlement made by the MTA at the time of public acquisition, and payment of the balance is being contested by the Boston Elevated Railway Company stockholders.

The cash position of the Boston Elevated Railway Company was estimated to be \$2,222,343.00 on May 18, 1951. Practically all of this cash has been converted to Government Securities.

When final settlement is arrived at with the Government, the remaining cash will be distributed to the stockholders.

BOSTON METROPOLITAN DISTRICT

REPORT No. 51-60

Audit: This report is being issued in connection with a current audit of the Metropolitan Transit Authority now in progress and covers the period from November 21, 1949, the date of our previous audit, to December 31, 1950.

During the period covered by the audit, the Boston Metropolitan District issued bonds and a note totaling \$11,271,043.54.

The proceeds of three of the bond issues were used to purchase Metropolitan Transit Authority bonds totaling \$9,053,000.00. On December 14, 1949, the District issued \$7,650,000.00 1949 Series B (2%) bonds dated November 25, 1949 and maturing November 25, 1950-59, the issue being authorized by Section 8A(j) of Chapter 544 of the Acts of 1947, as amended. On the same date the District issued \$403,000.00 1949 Series C (1 1/2%) bonds dated December 1, 1949 and maturing June 1, 1950-December 1, 1964, and authorized by Section 22 of Chapter 544 of the Acts of 1947. Under Section 6, Chapter 649 of the Acts of 1949, as amended, the District issued \$1,000,000.00 of 1950 Series B (0.75%) bonds on April 15, 1950 to mature April 15, 1951.

Under Section 8A(g) of Chapter 544 of the Acts of 1947 the District issued a \$297,671.65 principal amount registered 1949 Series D bond on December 14, 1949, dated December 1, 1949 and maturing November 24, 1950, bearing interest at the rate of (0.75%) per annum. The proceeds of this bond issue were used to provide for the deficiency in the Sinking Fund with respect to a City of Boston rapid transit bond due December 15, 1949.

On December 30, 1949 the Trustees of the District borrowed temporarily from the National Shawmut Bank of Boston the sum of \$48,371.89 to provide for meeting in full the principal payments of the District of \$246,000.00, due January 1, 1950.

Under Section 7A, Chapter 544 of the Acts of 1947, as amended, the District issued on March 1, 1950 \$1,872,000.00 of 1950 Series A bonds, to bear interest at 2% per annum and maturing December 1, 1960-80. The proceeds of the issue were to be used for re-financing a portion of District obligations totaling \$2,371,371.89, and maturing on various dates between March 1, 1950 and November 1, 1950 which would not be met by the application of the \$500,000.00 payment by the Metropolitan Transit Authority on June 1, 1950 in reduction of the principal amount of the \$71,418,371.89 bond of the Authority dated August 3, 1949, and held by the District.

On November 20, 1950 the District received \$536,259.27 under the terms of the \$40,219,445.43 Rapid Transit Bond held by the District. The principal payment of \$297,671.65 on the registered bond of the District due November 24, 1950 was made, and United States Treasury Bills totaling \$225,000.00, due March 31, 1951, were purchased on December 14, 1950, for \$224,233.25, the balance of \$14,354.37 being on deposit in the National Shawmut Bank of Boston as of January 8, 1951. The profit from investments of all or any part of the \$536,259.27, to be received each year until the principal is paid in full, will be paid over to the Metropolitan Transit Authority.

According to a schedule showing the method of meeting City of Boston transit debt maturities, the next payment by the Boston Metropolitan District will be January 1, 1958, in the amount of \$887,000.00.

TRANSIT MUTUAL INSURANCE COMPANY

REPORT No. 51-62

Distribution of Surplus: The affairs of the Transit Mutual Insurance Company are directly connected with operation of the Metropolitan Transit Authority since all of the officers and directors of the Transit Mutual Insurance Company are salaried employees of the Metropolitan Transit Authority. Since December 1947 none of the trustees or employees of the Metropolitan Transit Authority have received a salary for duties performed as officers or directors of the Transit Mutual Insurance Company, and in addition it was voted on January 27, 1949 to abolish the director's fee of five dollars for attendance

at regular meetings of the Insurance Company. The only income producing policy written for workmen's compensation is that of the Metropolitan Transit Authority and policies for general liability insurance are written only to permit the directors and officers of the Company to be policyholders as required in the bylaws, and these latter policies are re-insured with another company.

Reinsurance: Under the "Reinsurance Contract" which became effective April 1, 1949, this Company was reinsured on losses over \$25,000.00 up to \$500,000.00 for any one event or series of events. Effective November 15, 1950 the coverage under this re-insurance contract in the Peerless Casualty Company was changed by endorsement to \$50,000.00 up to \$500,000.00. The previous reinsurance contract was more favorable as its limits were from \$10,000.00 to \$250,000.00. However, because of a costly accident the reinsurer notified the Transit Mutual Insurance Company that it no longer desired to reinsure the risk at the former rates.

Lease Agreement: Effective January 1, 1951, the yearly rent of the premises at the Park Square Building occupied by the Transit Mutual Insurance Company was increased from \$2,108.00 to \$2,810.00 as per lease agreement dated October 31, 1950 between the Park Square Building, Inc., and the Transit Mutual Insurance Company.

Excess Reserve on Statutory Basis: The excess reserve in the amount of \$82,153.02 is the statutory reserve required by insurance department over the cash basis.

NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD AND
NANTUCKET STEAMSHIP A. THORITY

Section 14 of Chapter 544 of the Acts of 1948 provides in part as follows:

"SECTION 14. Report -- On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the pre-
ceding calendar year to the governor and to the general court. Each such re-
port shall set forth a complete operating and financial statement covering its
operations during the year. The Authority shall cause an audit of its books
to be made at least once in each year by the state auditor, and the cost thereof
may be treated as part of the operation of the project. Such audits shall be
deemed to be public records within the meaning of chapter sixty-six of the
General Laws."

During the fiscal year 1951, two separate audits were conducted by this department of
the accounts of the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship
Authority.

The need of two audits was occasioned by the fact that no funds had been appropriated
by the legislature for this purpose in the previous year.

The first audit was initiated as soon as practical after funds were made available and
covered the period from the creation of the Authority to December 31, 1949, and the second
covered the calendar year 1951. Henceforth audits of this agency will be initiated early in
each calendar year immediately after the Authority closes its books.

Separate reports of these examinations have been issued and in accordance with the
terms of the Act the Authority has been billed for the cost of these audits.

General: Individual copies of the audit reports have been submitted to His Excellency
the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the
House, the State Librarian, and the Senators, Representatives and officials of the cities
and towns of the area served by the Authority, and the members and officials of the Au-
thority.

Summary of Audits Completed: The following listed audits of the New Bedford, Woods
Hole, Martha's Vineyard and Nantucket Steamship Authority have been made since my last
report to the legislature:

SCHEDULE OF AUDITS

FISCAL YEAR 1950 - 1951

From		To	Report No.
April	1, 1949	December 31, 1949	51-19
January	1, 1950	December 31, 1950	51-75

The following comments, exceptions and recommendations were included in the re-
ports issued in connection with these examinations:

REPORT No. 51-19

Acquisition Cost: The agreed cost of the assets of the Massachusetts Steamship Lines as acquired by the Authority was \$1,520,000.00 and is hereinafter referred to as the Acquisition Cost.

The basis of the Acquisition Cost was arrived at by averaging estimates received from two engineering firms and the amounts so established were later approved by a Board of Arbitration. The estimates, averages, percentages, and the basis upon which the Acquisition Cost was applied in relation to the book values for allocation and distribution are shown in complete detail in Schedule VII of this report.

While the Acquisition Cost thus determined followed strictly the provisions of the act creating the Authority, the Acquisition Cost is substantially out of proportion to the closing book values of the Massachusetts Steamship Lines.

In this connection attention is called to the fact that the books of the Massachusetts Steamship Lines, Inc., reflected a gross cost of Property and Equipment plus an investment in a subsidiary Company (Vineyard Haven Wharf Co.) of \$1,091,786.11 which after depreciation charged to May 5, 1949 showed a net book value of \$788,422.73. This book value was further encumbered by a mortgage note in the amount of \$330,980.90 reducing the net equity value of the property to \$447,441.83.

There is no question that the overall amount of \$1,520,000.00 established as the Acquisition Cost was greatly in excess of the adjusted book values, and this disparity is explained by the fact that the estimate of one appraising engineering corporation was more than double that of the other and the higher estimate obviously resulted from figures based on replacement valuation by one of the corporations. Since all replacements would later be Authority expenses, it is hard to conceive why a settlement should have been made to the Massachusetts Steamship Lines, Inc. based upon said estimate. The following are examples of certain actual results of this procedure:

- a. The Steamship "Nantucket" was acquired at a replacement cost of \$274,462.49 as at May 5, 1949 when the actual depreciated book value at the closing of the Massachusetts Steamship Lines was only \$106,946.81. The ship was recently reconditioned at a cost of approximately \$400,000.00, thereby bringing its new book value to \$673,969.57. The expenditures for reconditioning were made from the Capital Improvement Fund of the Authority which was created out of the proceeds of the original bond issue.
- b. The vessel "S. S. Islander" was carried at a cost of \$157,173.88 with a net depreciated book value of \$63,740.07. The estimates agreed, however, that the vessel should be set up at a value of \$50,000.00 since the United States Coast Guard had indicated that the vessel could only be used for one year. As a matter of record the ship was taken out of service October 15, 1949 and was in the service of the Authority for less than six months, yet depreciation was continued monthly until May 5, 1950 at which time the ship was fully depreciated - with the exception of \$1,000.00 which was allowed to remain as an estimated salvage value. The vessel was sold on May 9, 1950 for \$4,250.00.
- c. A Coal Pocket, carried on the Massachusetts Steamship books was brought onto the Authority books at \$10,500.00. This pocket had not been in active use since 1946 and when brought onto the books of the Authority it was set up for full depreciation-within one year. The accountants report covering the audit of 1949 had gone even further and completely wrote it off in 1949 because it had been partially dismantled and was of no practical use to the Authority. In view of the foregoing it would appear that an adjustment should have been made on the Massachusetts Steamship books since coal had not been used for fuel on any vessels since May 1946.

Stock Settlement: The allocation of the Acquisition Cost included a stock settlement which was deposited with a fiscal agent;-namely the National Shawmut Bank of Boston, Massachusetts. The account was distributed as follows:

For immediate payment to Stockholders	\$ 932,516 26
* To be held in Escrow	200,000 00
	<u>\$1,132,516 26</u>

- * The escrow period was set up to run three years and one month from the date of dissolution of the Massachusetts Steamship Lines, Inc. which was in August 1949. One year and three months have since elapsed and no charges have resulted to date.

Since there were 87,869 shares of Capital Stock (Common), issued and outstanding, the immediate settlement averaged \$10.6126 per share and when the Escrow Fund is fully distributed the final settlement to the stockholders will average \$12.8887 per share.

Based upon the closing Balance Sheet of the Massachusetts Steamship Lines, Inc., if liquidation were possible at the time and the surplus as shown distributed, the stockholders would have received \$5.1005 per share, and this amount is greatly inflated since several of the assets were carried at figures much in excess of their true value.

As of the date of this audit all the stock certificates outstanding at Acquisition had been turned in. An examination of each certificate was made and a complete list of Stockholders of Record compiled.

Chapter 544 of the Acts of 1948 which created this Authority was originally approved on June 11, 1948, and in this connection it is worthy of comment that on December 31, 1948, 1,500 shares of still unissued stock were sold at \$2.00 a share, to the president of the Massachusetts Steamship Lines, Inc. This sale was made with the approval of the Directors of the private corporation as is indicated by the following excerpt from the minutes of the meeting held by its Board of Directors on June 28, 1948:

RESOLUTION

THAT WHEREAS, at a meeting held on June 13, 1947, the Executive Committee resolved: that this Executive Committee hereby recommends to the Board of Directors that they authorize 1500 shares of Common Stock, par value \$1 per share, of this corporation heretofore authorized but unissued to be issued for cash at the price of \$2. per share to or his nominees,

NOW, THEREFORE, BE IT RESOLVED, That this Board of Directors approves, ratifies and confirms said recommendations of the Executive Committee and hereby grants to , and his nominees, the right to purchase all or any part of an aggregate of 1500 shares of Common Stock, par value \$1 per share, of this corporation heretofore authorized but unissued, for cash at the price of \$2 per share, and the President or the Vice President and the Treasurer be and they hereby are authorized to issue all or any part of said 1500 shares and to issue and deliver certificates therefor upon receipt by the corporation of cash in full payment at the rate of \$2 per share, said right to continue for two years from June 13, 1947.

The option was not exercised until December 31, 1948 which was after the Authority had been created. From an original investment in the amount of \$3,000.00 a profit of \$12,918.55 has already accrued to the former President (or his Nominees) and when funds held in escrow are distributed the gross profit will probably total \$16,333.00.

Concessions: The contracts covering the concessions granted were reviewed and all reports and income for the period of audit were verified.

In connection with this it was noted that the income due the Authority from a concessionaire for the month of August 1949 was still unpaid at the end of November 1950. The concessionaire had the lunch counter concession on the S/S Islander and while remitting for the succeeding months of September and October failed to make payment for the August percentages due the Authority. The amount still due the Authority is \$447.98 which at the completion of this audit remained unpaid.

While attempts have been made to collect the amount due they have been unsuccessful and it is therefore suggested that legal steps be taken.

Cash: No cash count was made nor were certifications of bank balances received for the reason that the period of audit dated from May 5, 1949 to December 31, 1949 while the date of visit was October 2, 1950. Furthermore, all cash accounts as of December 31, 1949 had been certified by public accountants who made a complete audit for that period.

An examination of the accounts of the New Bedford Agent was made on November 20, 1950 by the auditing division of the Authority together with a representative of the State Auditor's Department.

The auditing division of the Authority makes periodical audits of the Agents and Pursers accounts. These were reviewed.

Vineyard Haven Wharf Company - Subsidiary: The books of the Authority reflected an asset of Investments in Subsidiary Companies as follows:

Vineyard Haven Wharf Co. : 155 shares of capital stock (out of 156 shares outstanding) at acquisition cost	\$19,358 08
Note Receivable	65,500 00
Total	<u>\$84,858 08</u>

The value of the investment in the Vineyard Haven Wharf Company, represented by its capital stock and note, is based upon the portion of the total Acquisition Cost that was allocated to the principal assets of that company, the wharf and ferry slip at the Vineyard Haven Station.

The Authority has instituted proceedings to dissolve the Company and acquire directly its assets and assume its liabilities. There are some minor legal technicalities which when adjusted will allow the Authority to fully acquire the Company.

The books and records of the subsidiary are maintained by the Authority. A check of these records was made and the balance sheet as at December 31, 1949, follows:

Assets

Current Assets:

Cash	\$1,566 35	
Accounts Receivable	88 00	
Claims Receivable - Federal Income Tax Refund	463 89	
Total Current Assets		\$ 2,118 24

Property Investment:

Wharf Property	\$38,639 24	
Ferry Slip	42,566 41	
	<u>\$81,205 65</u>	

Less:

Reserve for Depreciation	37,725 42	
Total Property Investment		<u>43,480 23</u>

Total Assets		<u>\$45,598 47</u>
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Liabilities:

Notes Payable (Authority)	\$65,500 00
Capital Stock	1,560 00

Surplus:

As of January 1, 1949	(\$19,716 35)	
Net Income Year 1949	(2,209 07)	
	<u>(\$21,925 42)</u>	
Federal Income Tax Refund Claim	463 89	(21,461 53)
Total		<u>\$45,598 47</u>

Attention is called to the fact that although these assets are carried on the books of the Authority at \$84,858.08 when the Wharf Company is dissolved and the assets and liabilities assumed by the Authority a writedown of approximately \$40,000.00 will be necessary to reflect the actual condition of the properties acquired.

Losses on Terminal Equipment and Motor Vehicles: The examination of all transactions involving the sale or trade-in of any equipment or motor vehicles was made and in connection thereto there was an item which appears to have been incorrectly handled.

Two truck tractors and six semi-trailers were written off the books on October 31, 1949. An estimated salvage value of \$2,000.00 was set up anticipating the sale of the items at approximately that figure. The resultant loss (after taking into consideration depreciation

and the salvage allowance) was \$10,170.98.

The two truck tractors and four of the semi-trailers were sold for the estimated salvage value of \$1,500.00 on December 2, 1949.

The two semi-trailers not sold were put back into service in May 1950. They were brought back on the books at the salvage value of \$500.00 (\$250.00 each) and set up for depreciation on a 5 year basis although previously on a ten year basis.

The original cost (included in the acquisition cost) of these items was \$1,635.17 each, against which depreciation of \$79.49 each, had been charged. In that they were brought back into service as originally set-up (as to units) the proper accounting procedure should have been to again set-up the original cost and depreciation as mentioned above and adjust the loss taken when the items were written off..

REPORT No. 51-75

General: The previous audit report, which included the period from acquisition to December 31, 1949, covered in detail the circumstances surrounding the purchase of the steamship line by the Authority. The report pointed out that the acquisition cost of \$1,520,000.00 was far in excess of the net book value of the property, and also that this net book value of \$788,422.73 was far in excess of the equity value of the property which at the time of purchase amounted to only \$457,441.83, since a mortgage on the physical property totaling \$330,980.90 existed at the time.

During the calendar year 1950, the period covered by this audit, this inflated purchase price had a substantial effect on the financial condition of the Authority and has contributed materially to the deficit reported for the year, and it is also obvious that the results of this overpayment will continue for many years to make profitable operations difficult if not impossible:

The following schedule gives graphic evidence of the inflated value placed on the various assets of the steamship line at the time of acquisition and demonstrates conclusively that in addition to the fact that these assets were overpriced, they were badly run-down since substantial expenditures have been necessary to put them into operating condition:

	Book Value	Acquisition Cost	Authority Expenditures 1949 - 1950
S. S. Martha's Vineyard	\$ 96,102 66	\$ 262,448 43	\$ 193,759 33
S. S. Nantucket	106,946 81	274,462 49	462,123 25
S. S. Islander *	63,740 07	50,000 00	19,598 69
M. V. Islander	-	-	966,306 47
Other Assets	521,633 19	933,089 08	394,934 77
	<u>\$788,422 73</u>		
Less:			
Mortgage Payable	<u>330,980 90</u>		
	<u>\$457,441 83</u>	<u>\$1,520,000 00</u>	<u>\$2,036,722 51</u>

* Scrapped and replaced by M. V. Islander

From the above schedule it will be noted that the Authority has paid \$1,520,000.00 for assets with a net equity value of \$457,441.83 and that in the period under public ownership it has been necessary to spend \$2,036,722.51 to put and keep these assets in operating condition. It is also a fact that the inflated purchase price has resulted in a substantial reduction in the Earned Surplus account as of December 31, 1950. In this connection, three items in particular have contributed measurably to this reduction. They are as follows:

1. The S. S. Islander for which \$50,000.00 was paid required an additional expenditure of \$19,598.69 to keep the vessel in operating condition. The ship was scrapped after less than a year's service, and the total expenditure of \$69,598.69 effected a reduction in the surplus in that amount less the scrap value of the ship which amounted to \$4,250.00.
2. The Vineyard Haven Wharf Company was acquired by the Authority at an allocated cost of \$84,132.37. Less than a year later, in April 1950, the ferry slip was razed which resulted in a reduction in the Earned Surplus account of \$28,369.44.

3. A coal pocket was acquired by the Authority at a cost of \$10,500.00, and though it was never used by the Authority at any time, the total cost has been written off as a reduction of \$10,500.00 in the Earned Surplus account.

Depreciation: It was noted that depreciation expense for the year 1950 amounted to \$148,401.16, and it is estimated by Authority officials that this expense for 1951 will probably reach \$198,000.00.

These charges are based on the valuation of the assets as acquired by the Authority, which it has been previously pointed out in the case of those acquired by purchase from the previous steamship line are greatly overvalued.

Section 5 of Chapter 544 of the Acts of 1948, as amended, states in part:

"The cost of the service shall include (6) such allowance as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed or abandoned..."

It is recommended to the Authority that future depreciation charges be based on valuations more in accordance with the true worth of the asset being depreciated rather than the excessively high cost at which these assets were acquired.

Excessive Maintenance Charges: Maintenance charges for the year 1950 included expenditures totaling \$162,011.31 in connection with the reconditioning of the S. S. Martha's Vineyard.

It is the opinion of this office that a substantial part of this amount which was charged to maintenance expenses should have been capitalized. To demonstrate the basis for this opinion, there are listed herewith certain items charged by the Authority to maintenance expenses which obviously have a life expectancy of more than the one year which they were charged against:

Purchase and Installation of a 25 K. W. Generator	\$6,073 00
New Boiler Tubes	3,178 00
Main Deck Plating	5,932 00

Under normal accounting procedures, values such as the foregoing would be added to the total assets, rather than to operating expenses.

Vineyard Haven Wharf Company: Transactions in connection with this Wharf Company, indicate again the inflated value at which certain items of property were carried by the original company and which result now in substantial reductions in the Earned Surplus of this Authority.

As of January 1, 1950 the value of the investment in the Vineyard Haven Wharf Company was reflected as follows:

Vineyard Haven Wharf Company:	
155 shares of Capital Stock (out of 156 shares outstanding)	
at acquisition cost	\$19,358 08
Note Receivable	65,500 00
Total	<u>\$84,858 08</u>

During the period under audit, the one share of stock outstanding was purchased by the Authority at a cost of \$300.00.

As of August 31, 1950, the assets of the Vineyard Haven Wharf Company were transferred to the Authority. The Vineyard Haven Wharf Company was subsequently dissolved on September 27, 1950.

The method of determination of the wharf and ferry by the Authority was as follows:

Investment in Vineyard Haven Wharf Company,	
December 31, 1949	\$84,858 08
Cost of Remaining Share of Stock Outstanding,	
Purchased March 1950	300 00
Total Investment	<u>\$85,158 08</u>

Less:

Current Assets Acquired:

Cash

\$1,014 86

Accounts Receivable

10 85 \$ 1,025 71

Remainder - Investments Representing
the Wharf and Ferry Slip

\$84,132 37

According to the records of the Authority the following represents the basis for the determination of the respective values involved:

May 5, 1949

	<u>Allocated Cost</u>	<u>Percentage</u>	<u>Determined Cost</u>
Wharf	\$56,245 50	66.28	\$55,762 93
Ferry Slips	28,612 58	33.72	28,369 44
	<u>\$84,858 08</u>	<u>100.00</u>	<u>\$84,132 37</u>

It is also mentioned at this time that the value of the wharf in the amount of \$55,762.93 was added to the account called Buildings and Structures - Vineyard Haven.

Since the ferry slip was razed in April 1950 to allow for the building of a new ferry slip, its stated book value in the amount of \$28,369.44 was accordingly charged off during the year.

Loss 1950: For the calendar year 1950, the Authority has reported a loss of \$148,219.03, and since on January 1, 1950 the Authority had on hand a balance of \$286,065.67 in the Earned Surplus account, this entire loss absorbed without assessment on the cities and towns. It is the opinion of this Department that this loss of \$148,219.03 has been substantially overstated as the result of the practices already outlined in this report. It is therefore, obvious that using normal and accepted accounting procedures and practices an increment to the Earned Surplus account could have resulted.

Audits of the Authority: In examining the minutes of the Authority, it was noted that a recommendation had been made suggesting the elimination of the annual audit of the Nantucket Steamship Authority by the Department of the State Auditor. We point out the fact that at the present time the Authority is subject to private audits by the Accountants designated by the bondholders and paid by the Authority, and, in addition, the accounts of the Authority are audited by this Department, and while we agree that two audits are not necessary in view of the fact that the bondholders are completely protected against loss by Section 9 of Chapter 544 of the Acts of 1948, as amended by Chapter 142 of the Acts of 1949, the audit now being conducted by private accountants for the bondholders is completely superfluous, whereas the Department of the State Auditor, operating under the direction of an elected public officer, should continue its audits for the protection of the taxpayers. Under the terms of the present Act, no matter how badly the Authority is managed, and regardless of the size of the operating deficits, the bondholders are completely protected, but no such protection is available to the taxpayers, except such as is afforded by audits made by the Department of the State Auditor.

Revision of Rates: It was noted that the Authority has had a paid survey made of its present rate schedules, and a petition for approval of an upward revision of these rates was in the process of being submitted to the Interstate Commerce Commission on the date on which this audit was completed.

Audit of Accounts of Agents and Pursers: During the audit of the accounts of individual agents and pursers, it was noted that in two instances revenue funds had been used to cash personal checks of the agents.

In order to provide more effective internal control, it is recommended that the practice of cashing personal checks of officers and employees of the Authority out of revenue funds be discontinued.

Concessions: It was noted in the previous audit report that there was an amount of \$447.98 due the Authority from a concessionaire for the month of August 1949. This amount still remained unpaid at the completion of the present audit. It is again suggested that immediate steps be taken for its collection.

